



*Improved Controls Over Grants Provided to
Low Income Taxpayer Clinics Would Lower
the Risk of the Inappropriate Use of Federal
Government Funds*

July 31, 2008

Reference Number: 2008-10-142

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.

Redaction Legend:

2(e) = Law Enforcement Procedure(s)

5 = Information Concerning a Pending Law Enforcement Proceeding

Phone Number | 202-622-6500

Email Address | inquiries@tigta.treas.gov

Web Site | <http://www.tigta.gov>



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 31, 2008

MEMORANDUM FOR NATIONAL TAXPAYER ADVOCATE

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

SUBJECT: Final Audit Report – Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds (Audit # 200710009)

This report presents the results of our review to determine whether clinics participating in the Internal Revenue Service's (IRS) Low Income Taxpayer Clinic (LITC) program complied with the grant terms and conditions and the applicable laws and regulations related to the management of Federal Government funds. This audit was conducted as part of our Fiscal Year 2007 Annual Audit Plan.

Impact on the Taxpayer

For the 2006 grant cycle,¹ the IRS awarded \$8 million in Federal Government grants to 149² taxpayer clinics. These clinics provide education to taxpayers who speak English as a second language and assist low-income taxpayers involved in controversies with the IRS by protecting their rights and helping to ensure fair results. However, we found that controls over the financial management of the LITC program need to be improved to ensure that clinics submit complete and accurate year-end financial reports in a timely manner. Without adequate controls, the IRS cannot ensure that the clinics are properly using Federal grant monies.

¹ Although Congress appropriates funds to the LITC program on a fiscal year basis, clinics participating in the LITC program are awarded funds on a calendar year basis, known as the "grant cycle."

² This total does not include one 2006 grant cycle grantee whose award was terminated before the disbursement of any funds.



Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds

Synopsis

Clinics are required to use the funds granted to them to provide taxpayer outreach services to taxpayers for whom English is a second language and/or legal representation of low-income taxpayers involved in tax controversies before the IRS. LITC program guidelines require that participating clinics submit a year-end financial report (Standard Form 269) and supporting financial narrative by March 31st after the year the grant funds were received. The supporting financial narrative should contain a detailed breakdown of actual expenses incurred during the grant cycle and the source and amount of matching funds received for the program. The IRS also conducts onsite reviews of selected clinics to verify each clinic's adherence to program guidelines.

Overall, controls over the financial management of the LITC program need to be improved in three key areas. First, prompt follow-up is needed when clinics fail to file required year-end financial and program information. LITC program guidelines require that participating clinics submit the year-end financial report and supporting financial narrative by March 31st after the year the grant funds were received. Without these reports, the IRS has no basis to evaluate whether grant funds were utilized appropriately.

Our review identified that 98 (66 percent) of the 149 clinics that were awarded grant funds in the 2006 grant cycle had not submitted all required year-end financial and program information as of August 2007, 4 months after the required submission date. After being advised of our findings, the IRS immediately began reviewing the case history files associated with clinics having missing or incomplete year-end reports and started contacting the clinics that had not submitted the required financial and program information. The LITC Program office also prepared draft procedures outlining a timeline and process for following up with clinics that do not submit the required reports in a timely manner.

Because of the ongoing efforts of the LITC Program office, our subsequent review of this area in November 2007 showed that the number of clinics not submitting the necessary year-end information had been reduced from 98 to 21. Further analysis of the 21 clinics identified 3 instances in which clinics received grant funds during the 2006 grant cycle but still had not provided information to the IRS regarding how these funds were spent. One of the three clinics also had not provided any information to the IRS regarding how the grant money was spent during the 2005 grant cycle. The total amount of funds disbursed to these 3 clinics during the 2005 and/or 2006 grant cycles was \$43,577. At the conclusion of our fieldwork in March 2008, these clinics still had not provided information to the IRS regarding how the grant funds were spent. Current IRS procedures allow for the LITC Program office to terminate the grant or freeze funds should a clinic fail to submit the required reports in a timely manner. 5.2(e)

[REDACTED]



Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds

Second, a program of regularly scheduled, comprehensive reviews of clinic year-end financial information needs to be implemented to ensure that reported expenses are adequately supported and allowable under LITC program guidelines. We did not find evidence that a comprehensive review of a clinic's reported expenditures and matching contributions was performed for any clinic that received funds in the 2006 grant cycle. The IRS awarded 149 LITC program grants in the 2006 grant cycle.

Finally, additional guidance for clinics is needed to ensure that clinics are properly managing and reporting on their use of grant funds. The primary source of both operational and financial guidance for LITC program participants is the *LITC Low Income Tax Clinic Grant Application Package and Guidelines* (Publication 3319). Publication 3319 describes the information and records the clinics need to maintain to account for expenses incurred using the grant funds and to account for the matching funds received. However, we found that 7 (58 percent) of the 12 clinics sampled reported expenses or matching contributions on their 2006 year-end financial report that were not supported by complete and reliable documentation or were not allowable expenses under LITC program grant guidelines. Specifically, clinics 1) did not always use a consistent methodology to substantiate reported salary expenses, 2) reported expenses or matching contributions related to expenditures which are not allowable under LITC program guidelines, and 3) did not always maintain adequate documentation to substantiate volunteer services. The IRS cannot ensure that the clinics are adequately managing their grant funds without both establishing clear guidelines regarding documentation and calculation of expenses and taking proactive steps to ensure that clinics understand and are following these guidelines.

Recommendations

We recommended that the National Taxpayer Advocate, in coordination with the IRS Office of Chief Counsel, develop and implement procedures to address instances in which grant funds have been disbursed to a clinic that cannot, or will not, document that grant funds were used appropriately. We also recommended that the National Taxpayer Advocate 1) take appropriate action to address the noncompliance of the 3 clinics which failed to provide support for \$43,577 in grant funds they received, 2) develop and implement a process for conducting random onsite financial reviews of a sample of participating clinics, 3) update the guidelines provided to program participants to include information regarding the performance of periodic grant audits or reviews by the IRS and the potential disallowance and recovery of improper/unsupported costs identified as a result of these reviews, 4) revise and expand the instructions and guidelines provided to clinics participating in the LITC program, 5) re-emphasize the documentation requirements for volunteer services to all current program participants, 6) and take appropriate follow-up action regarding \$17,750 of expenditures reported by clinics that are not allowable per LITC program guidelines.



Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds

Response

The National Taxpayer Advocate generally agreed with all of our recommendations. The LITC Program office has developed and implemented procedures for following up with grantees that have not filed required reports in a timely or complete manner, and the National Taxpayer Advocate is considering sending demand letters to the three clinics in question. In addition, the LITC Program office has developed and is implementing procedures to randomly sample invoices and receipts during site-assistance visits. The National Taxpayer Advocate noted, however, that the LITC Program office lacks individuals experienced with in-depth financial audits and lacks the personnel needed for a substantive financial review. If the sampling of invoices and receipts yields results that require a deeper review, the program office will refer those cases up the chain of command, and where appropriate, to the Treasury Inspector General for Tax Administration. Clearer language regarding the possible disallowance and recovery of improper grant fund expenditures will be included in future instructions and will be highlighted at the next annual LITC conference. The LITC Program office will also work to make requirements regarding the calculation and documentation of salary expenses clearer through edits to Publication 3319 and will discuss them at the annual LITC conference. In addition, the LITC Program office is developing clinic guidelines regarding the documentation of volunteer services. Finally, the LITC Program office will determine how best to address the unallowable expenditures of grant funds, including identifying unclaimed allowable expenses or recouping those funds. Clinics will also be made aware of the consequences for unallowable expenses at the next annual LITC conference. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment

We concur that the review of clinics' invoices and receipts during site-assistance visits should help facilitate early identification of some potential problems. However, because site-assistance visits are typically performed before clinics are required to submit any financial information regarding how grant funds were spent, these reviews alone do not provide sufficient assurance that the financial information reported by clinics is accurate. We do not believe that periodically performing reviews focused on verifying the financial information reported by clinics to supporting documentation would be unduly difficult or burdensome, especially if performed on a sample basis. As such, we believe the National Taxpayer Advocate should reconsider conducting periodic random reviews of the financial information reported by clinics.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

Table of Contents

Background	Page 1
Results of Review	Page 3
Prompt Follow-up Is Needed When Low Income Taxpayer Clinics Fail to File All Required Year-end Financial and Program Information.....	Page 3
<u>Recommendations 1 and 2:</u>	Page 5
A Program of Regularly Scheduled, Comprehensive Reviews of Low Income Taxpayer Clinic Year-end Financial Information Needs to Be Implemented.....	Page 5
<u>Recommendation 3:</u>	Page 6
<u>Recommendation 4:</u>	Page 7
Additional Guidance Is Needed to Ensure That Low Income Taxpayer Clinics Are Properly Managing and Reporting on Their Use of Grant Funds	Page 7
<u>Recommendations 5 through 7:</u>	Page 9
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 10
Appendix II – Major Contributors to This Report	Page 12
Appendix III – Report Distribution List	Page 13
Appendix IV – Outcome Measures.....	Page 14
Appendix V – Management’s Response to the Draft Report	Page 16



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

Abbreviations

IRS	Internal Revenue Service
LITC	Low Income Taxpayer Clinic
TAS	Taxpayer Advocate Service



Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds

Background

The Low Income Taxpayer Clinic (LITC) program was initiated by a provision of the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998¹ to offer more assistance to low-income taxpayers involved in controversies with the IRS to protect their rights and to help ensure fair results. The LITC program was designed to provide low-income taxpayers who are involved in tax disputes with free or nominal cost legal assistance. Another goal of the LITC program is to

Low Income Taxpayer Clinics were created to assist low-income taxpayers involved in controversies with the IRS and provide tax education for taxpayers who speak English as a second language.

provide education and outreach to taxpayers who speak English as a second language by informing them of their tax rights and responsibilities. As such, the LITC program serves a valuable role in the IRS' efforts to provide quality taxpayer service and ensure compliance with the tax laws.

Because clinics represent low-income taxpayers before the IRS during disputes involving audits, appeals and collection issues, and matters before the United States Tax Court, the clinics are required to include a Qualified Tax Expert – generally a tax attorney, Certified Public Accountant, or an Enrolled Agent on their staff. The LITC program is not intended to help taxpayers prepare their tax returns. Clinics are only allowed to prepare tax returns if it is ancillary to the education of a taxpayer for whom English is a second language and/or when it is necessary to resolve a taxpayer's controversy with the IRS.

The IRS administers the LITC grant program by providing Federal grant money, on a calendar year basis,² to clinics that apply for the program each year and agree to provide tax services to low-income taxpayers. These clinics involve a variety of organizations, including accredited law schools, business schools, and 501(c) nonprofit organizations. The IRS provides grant funds up to \$100,000 for each clinic. Participating clinics are required to provide matching funds on a dollar-for-dollar basis for all grant funds received. Matching funds can include salaries and the value of volunteer services of individuals performing services for the clinic. Since the inception of the program, the total funding for grants has increased significantly. In 1999, the funding for grants was \$1.5 million to 34 clinics in 19 States. During the 2006 grant

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² Although Congress appropriates funds to the LITC program on a fiscal year basis, clinics participating in the LITC program are awarded funds on a calendar year basis, known as the "grant cycle."



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

cycle, funding for grants totaled \$8 million for 149³ clinics representing 50 States plus the District of Columbia and Puerto Rico. Because the LITC program uses Federal grants, clinics must demonstrate that they have adequate internal controls in place to ensure that grant expenditures are allowable, authorized, and allocable to the program. Clinics must also submit to the IRS year-end financial statements along with a narrative describing their goals, strategy, and program results. Failure to submit the required financial reports could result in a loss of further funding for the clinic.

This review was performed at the Charlottesville, Virginia; Columbus, Ohio; Concord, New Hampshire; Corpus Christi, Texas; Dallas, Texas; Pittsburgh, Pennsylvania; San Diego, California; Santa Ana, California; Washington, D.C.; Weslaco, Texas; Wichita, Kansas; and Wilmington, Delaware, LITCs. This review was also performed at the Health and Human Services Department and Taxpayer Advocate Service National Headquarters in Washington, D.C., during the period July 2007 through March 2008. This review focused on the financial controls over the grant money disbursed by the IRS to participating clinics. We did not review the quality of the performance of services provided to taxpayers by participating clinics. 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.

³ This total does not include one 2006 grant cycle grantee whose award was terminated before the disbursement of any funds.



Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds

Results of Review

For the 2006 grant cycle, the IRS awarded grants totaling \$8 million to 149 clinics. As of July 2007, \$7.7 million had been disbursed. Based on our review of the financial reports submitted by the clinics and the IRS' financial management oversight of the clinics' expenditures, we could not always determine whether the clinics were properly using grant funds. Without improved controls over the grant funds, the IRS maintains the risk of inappropriate use of Federal Government funds. We found that controls over the financial management of the LITC program need to be improved in three key areas. Specifically:

- Prompt follow-up is needed when clinics fail to file all required year-end financial and program information.
- A program of regularly scheduled, comprehensive reviews of clinic year-end financial information needs to be implemented.
- Additional guidance is needed to ensure that clinics are properly managing and reporting on their use of grant funds.

Prompt Follow-up Is Needed When Low Income Taxpayer Clinics Fail to File All Required Year-end Financial and Program Information

LITC program guidelines require that participating clinics submit a year-end financial report (Standard Form 269) and supporting financial narrative by March 31st after the year the grant funds were received. The supporting financial narrative should contain a detailed breakdown of actual expenses incurred during the grant cycle and the source and amount of matching funds received for the program. However, in a Treasury Inspector General for Tax Administration review⁴ of the LITC program performed in Fiscal Year 2005, we identified that many clinics did not submit their required program reports in a timely manner. In response, the Taxpayer Advocate Service (TAS) stated that it would review and strengthen its procedures for following up on late reports and for taking the necessary corrective actions.

Our review of the LITC 2006 grant cycle identified that the LITC Program office still had not developed effective controls to ensure that follow-up contact was routinely conducted with clinics that did not submit their program reports in a timely manner. We found that 98 (66 percent) of the 149 clinics that were awarded grants for the 2006 grant cycle still had not submitted all required year-end financial and program information as of August 2007, 4 months

⁴ *Progress Has Been Made but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program* (Reference Number 2005-10-129, dated September 2005).



***Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds***

after the required submission date. At the time of our review, LITC Program office records indicated that follow-up contact with clinics that either did not submit or submitted incomplete year-end information occurred with only 24 (24 percent) of the 98 clinics.

After being advised of our findings, the IRS immediately began reviewing the case history files associated with clinics having missing or incomplete year-end reports and started contacting the clinics identified as not having submitted the necessary financial and program information. The LITC Program office also prepared draft procedures outlining a timeline and process for contacting the clinics that do not submit required reports in a timely manner. These new procedures include the use of a checklist to allow LITC Program office staff to readily determine whether all necessary program information reports have been received and whether the submitted reports contain all the necessary information. The IRS also informed us that as a result of the reviews of the case history files, some clinics had actually submitted the required information in a timely manner, but program office records were never updated to reflect receipt of these reports. We were unable to readily verify the exact number of cases in which this occurred because of limitations in the LITC Program office records system.

Because of the ongoing efforts of the LITC Program office, our subsequent review of this area in November 2007 showed that the number of clinics not submitting the necessary year-end information had been reduced from 98 to 21. Further analysis of the 21 clinics identified 3 instances in which clinics received grant funds during the 2006 grant cycle but had not provided the IRS with any information regarding how these funds were spent. One of the three clinics also had not provided any information to the IRS regarding how the grant money was spent in 2005. The total amount of funds disbursed to these 3 clinics during the 2005 and/or 2006 grant cycles was \$43,577. At the conclusion of our fieldwork in March 2008, these clinics still had not provided information to the IRS regarding how the grant funds were spent. Without this information, the IRS has no basis to determine whether grant funds were utilized appropriately.

In addition, the procedures recently drafted by the IRS regarding follow-up on missing year-end reports do not specify what action should be taken when IRS contacts do not result in the submission of missing year-end reports. Current IRS procedures do state that the LITC Program office should consider freezing remaining, undistributed funds granted to a clinic or terminate the grant entirely should a clinic fail to submit the required reports in a timely manner. Although this procedure eventually results in a stoppage of funds, it does not address grant funds which have already been distributed to the clinic. Therefore, the IRS, in coordination with the IRS Office of Chief Counsel, needs to determine what actions can be taken against clinics which have already received grant funds and have not submitted the required reports. ^{5.2(e)}



Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds

Recommendations

Recommendation 1: The National Taxpayer Advocate, in coordination with the IRS Office of Chief Counsel, should develop and implement procedures to address instances in which grant funds have been disbursed to a clinic that cannot, or will not, document that grant funds were used appropriately.

Management's Response: The National Taxpayer Advocate agreed with this recommendation. The LITC Program office has developed and implemented procedures for following up with clinics that fail to file interim and year-end reports in a timely or complete manner. The LITC Program office will also continue to publicize the problem of late and incomplete reports and stress their importance during site-assistance visits, through periodic communications, and at the annual LITC conference.

Recommendation 2: The National Taxpayer Advocate should take appropriate action to address the noncompliance of the 3 clinics which failed to provide support for \$43,577 in grant funds.

Management's Response: The National Taxpayer Advocate agreed with this recommendation and is considering sending demand letters to the three clinics in question.

A Program of Regularly Scheduled, Comprehensive Reviews of Low Income Taxpayer Clinic Year-end Financial Information Needs to Be Implemented

As discussed previously, the clinics are required to submit annual financial reports regarding grant expenses and matching contributions. These financial reports, along with the program narrative, contain the total amount of grant funds expended and a breakdown listing the services and items purchased with grant funds or contributed as a matching donation. Clinics are not required to submit any accompanying documentation, such as invoices or receipts, with the financial reports and program narrative to substantiate the information reported in those documents. In the Fiscal Year 2005 Treasury Inspector General for Tax Administration review of the LITC program, we identified that clinic program and financial reports were not subject to periodic review. In response to the Fiscal Year 2005 review, the TAS developed a three-tier site assistance process intended to ensure that clinics are complying with the terms and conditions of the LITC program. One of the key objectives of this process is to ensure that clinics use grant funds appropriately.

However, we did not find any evidence that a review of a clinic's reported expenditures and matching contributions was performed to ensure that reported expenses are adequately supported and allowable for any of the clinics which received funds during the 2006 grant cycle. The IRS awarded 149 LITC grants in the 2006 grant cycle.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

The TAS informed us that in the 2006 grant cycle it began performing onsite reviews of the financial internal controls of clinics new to the LITC program. In addition, if the TAS finds during the performance of a general site visit that a clinic is not adhering to basic LITC program guidelines, a more comprehensive onsite review of clinic operations, including a review of financial internal controls, will be performed. To assist in conducting the comprehensive financial reviews, the TAS developed a checklist to be used by program analysts conducting field visitations to review clinics' financial internal controls. The checklist includes reviewing compliance with basic financial requirements such as an effective system of control and accountability for funds and property. The checklist does not specifically require the documented review of a sample of clinics' reported expenditures and matching contributions with supporting documents, such as invoices or receipts.

However, although the TAS records indicated it performed onsite visitations to 11 clinics that were new for the 2006 grant cycle, we found that a documented assessment of financial controls was not completed for any of these clinics. Further, we did not find any evidence that a documented review of a sample of participating clinics' reported expenditures and matching contributions with supporting documents was performed for any of these 11 clinics. Finally, we found that the program guidelines, which are provided to all grant recipients, do not include any information regarding the performance of grant audits or reviews by the IRS and the potential disallowance of improper/unsupported costs. Providing this information to the clinics could increase their awareness of the IRS' program review authority and lead to increased compliance with program requirements.

Without a system of periodic reviews of the supporting documentation of reported financial transactions relating to LITC program grant funds, the IRS has no effective way of ensuring that 1) financial information reported by clinics is accurate and 2) Federally provided grant funds are used only for appropriate purposes.

Recommendations

Recommendation 3: The National Taxpayer Advocate should develop and implement a process to conduct periodic random onsite financial reviews of a sample of clinics. The financial reviews should include the verification of a sample of reported expenditures with source documents, such as invoices and receipts.

Management's Response: The National Taxpayer Advocate partially agreed with this recommendation. The LITC Program office has developed and is implementing procedures to randomly sample invoices and receipts during site-assistance visits. If the sampling of invoices and receipts during site-assistance visits yields results that require a deeper review, the Program office will refer those cases up the chain of command. The National Taxpayer Advocate noted, however, that the LITC Program office lacks



Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds

individuals experienced with in-depth financial audits and lacks the personnel needed for a substantive financial review.

Office of Audit Comment: We concur that the review of clinics' invoices and receipts during site-assistance visits should help facilitate early identification of some potential problems. However, because site-assistance visits are typically performed before clinics are required to submit any financial information regarding how grant funds were spent, these reviews alone do not provide sufficient assurance that financial information reported by clinics is accurate. We do not believe that periodically performing reviews focused on verifying the financial information reported by clinics to supporting documentation would be unduly difficult or burdensome, especially if performed on a sample basis. As such, we believe the National Taxpayer Advocate should reconsider conducting periodic random reviews of the financial information reported by clinics.

Recommendation 4: The National Taxpayer Advocate should update the guidelines provided to program participants to include information regarding the performance of periodic grant audits or reviews by the IRS and the potential disallowance and recovery of improper/unsupported costs identified as a result of these reviews.

Management's Response: The National Taxpayer Advocate agreed with this recommendation. The *LITC Low Income Tax Clinic Grant Application Package and Guidelines* (Publication 3319) has been updated and now includes language referring to periodic sampling and verification of expenses. The LITC Program office will draw attention to the periodic reviews and audits during upcoming LITC conferences. The LITC Program office will include clearer language regarding the possible disallowance and recovery of improper grant fund expenditures in future versions of Publication 3319 and will also highlight this information at the next annual LITC conference and during site-assistance visits.

Additional Guidance Is Needed to Ensure That Low Income Taxpayer Clinics Are Properly Managing and Reporting on Their Use of Grant Funds

Another requirement of the financial reports is to include a detailed breakdown of actual expenses incurred during the grant cycle and the source and amount of matching contributions provided by the grant recipient. Clinics are required to match the amount granted to them on a dollar-for-dollar basis. The primary source of both operational and financial guidance for LITC program participants is Publication 3319. Publication 3319 describes the information and records the clinics need to maintain to account for expenses incurred using the grant funds and to account for the matching funds received. Clinics that fail to comply with the terms of the grant



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

guidelines, including required documentation of expenses and matching contributions, are subject to administrative remedies, including suspension or termination of the grant award.

We found that 7 (58 percent) of the 12 clinics sampled reported expenses or matching contributions on their 2006 year-end financial report that were not supported by complete and reliable documentation or were not allowable expenses under LITC program grant guidelines. Specifically:

- Six (50 percent) of the 12 clinics did not utilize an appropriate or consistent methodology to substantiate the reported time spent on LITC program-related activities and charged against the grant as salary or payroll expense. These clinics were not able to provide documentation, such as time and attendance reports or log books, linking the reported salary or payroll expense to LITC program-related activities for all staff performing LITC program-related activities. In general, the year-end salary expense amount reported by these clinics was based on a best guess estimate of anticipated LITC program-related staff time that was made at the beginning of the grant year. As a result, we were unable to reliably determine the correct amount of salary expense which should have been reported by these clinics. The total salary expense reported by the 6 clinics was approximately \$321,000. Three of these 6 clinics also reported an additional \$194,000 in salary expense as a matching contribution. We were similarly unable to verify the accuracy of this amount.
- Three (25 percent) of the 12 clinics reported either expenses or matching contributions totaling \$17,750 related to expenditures which are not allowable under LITC program guidelines. These expenses and matching contributions included transactions applied to the 2006 grant cycle that actually occurred in the 2005 or 2007 grant cycle. The clinics also included student volunteer hours used to receive academic credit as a matching contribution, which is not allowable under LITC program guidelines.
- Two (17 percent) of the 12 clinics did not maintain complete and adequate documentation to substantiate volunteer services reported as matching contributions. LITC program guidelines require that all volunteer services reported as a matching contribution be supported by adequate documentation to substantiate volunteer services. One clinic did not have any documentation for a portion of reported volunteer services. The other clinic maintained only a summary schedule of hours donated. The total value of the volunteer services that was not supported by adequate documentation was \$57,085.

Although salary expense is frequently the largest single expense reported by the clinics, Publication 3319 does not include any specific instruction or guidance regarding how this expense should be calculated and what documentation is required to support this calculation. We believe that the best approach for addressing clinic compliance with existing financial requirements such as the standards for recording volunteer hours is the implementation of a program of regular financial site reviews as discussed previously in this report.



Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds

The IRS cannot ensure that the clinics are adequately managing their grant funds without establishing clear guidelines regarding documentation and calculation of expenses. The IRS also needs to take proactive steps to ensure that clinics understand and are following these guidelines.

Recommendations

Recommendation 5: The National Taxpayer Advocate should revise and expand the instructions and guidelines provided to program participants to include specific guidelines regarding how salary expense should be calculated. The instructions and guidelines should describe what documentation is required to support the salary expense calculation. A discussion of the expanded instructions should also be included as a topic at the next annual LITC program all clinic conference.

Management's Response: The National Taxpayer Advocate agreed with this recommendation. The LITC Program office will work to make this information clear to participating clinics in subsequent edits to Publication 3319. In addition, this information will be discussed at the annual LITC conference and in site-assistance visits.

Recommendation 6: The National Taxpayer Advocate should re-emphasize the documentation requirements for volunteer services to all current program participants. For example, the National Taxpayer Advocate could consider including in the LITC program user guidelines a pro forma volunteer log sheet for use by volunteers/clinics in recording time spent on LITC program-related activities.

Management's Response: The National Taxpayer Advocate agreed with this recommendation. The LITC Program office is developing clinic guidelines regarding the documentation of volunteer services and will develop a pro forma log sheet and instructions that meet the needs of all clinics. This sample log sheet will be incorporated into the next Publication 3319.

Recommendation 7: The National Taxpayer Advocate should take appropriate follow-up action regarding the \$17,750 of expenditures reported by clinics which are not allowable per LITC program guidelines. These actions can range from recouping grant funds, not awarding future grants, and/or providing technical advice to the clinics, as appropriate.

Management's Response: The National Taxpayer Advocate agreed with this recommendation. The National Taxpayer Advocate and LITC Program office will determine how best to address the unallowable expenditures of grant funds, including identifying unclaimed allowable expenses or recouping those funds. Clinics will also be made aware of the consequences for unallowable expenses at the next annual LITC conference.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether clinics participating in the IRS' LITC program complied with the grant terms and conditions and the applicable laws and regulations related to the management of Federal Government funds. To accomplish this objective, we:

- I. Determined whether the clinics were properly managing grant funds.
 - A. Reviewed the applicable legislation, Office of Management and Budget policies, and IRS procedures and determined the allowability and allocability of expenses.
 - B. Randomly selected a sample of 12 clinics out of a total population of 149¹ clinics that were in the LITC program in the 2006 grant cycle and determined whether the clinics' reported expenses were allowable, allocable, and reasonable. We used a random sample to ensure that each clinic had an equal chance of being selected, which enabled us to obtain sufficient evidence to support our results.
- II. Determined whether the clinics were appropriately matching the IRS grant funds.
 - A. Reviewed the applicable legislation, Office of Management and Budget policies, IRS procedures, and grant applications and determined the requirements for matching funds.
 - B. Using the same sample as in Step I.B., conducted detailed testing of grant recipients.
- III. Determined whether the IRS has established adequate financial controls to effectively administer the LITC grant program and ensured that LITC program transactions were accurately recorded.
 - A. Analyzed IRS procedures for reviewing year-end financial information submitted by the clinics.
 - B. Evaluated the methodology the IRS uses to validate, during the site visits, the financial information reported by clinics.

¹ This total does not include one 2006 grant cycle grantee whose award was terminated before the disbursement of any funds.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

- C. Reviewed the status of corrective actions taken by the IRS in response to the recommendations related to financial management of clinics contained in the Treasury Inspector General for Tax Administration September 2005 report.²
- D. Reviewed clinic compliance with grant-related financial information filing requirements for all clinics that received grants in the 2005 and/or 2006 grant cycles.

² *Progress Has Been Made but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program* (Reference Number 2005-10-129, dated September 2005).



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
Alicia P. Mrozowski, Director
Anthony J. Choma, Audit Manager
Seth A. Siegel, Lead Auditor
Richard Loudon, Senior Auditor
James S. Mills, Jr., Senior Auditor
Kanika Kals, Auditor



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Chief Counsel CC
Deputy, National Taxpayer Advocate TA
Director, Low Income Taxpayer Clinic Program Office TA:LITC
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 Liaison: National Taxpayer Advocate TA



***Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds***

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measures:

- Cost Savings - Questioned Costs, Unsupported – Potential; \$43,577 (see page 3).
- Cost Savings - Questioned Costs, Unallowable – Potential; \$17,750 (see page 7).

Methodology Used to Measure the Reported Benefit:

During our review of the 2006 grant cycle records of clinic financial reporting, we found that 3 of the 149 clinics participating in the LITC program did not submit the required financial reporting information attesting to the amount of grant funds used and services contributed to the LITC program. We expanded our review of these clinics to prior year grants and found that one of the three clinics also did not submit the required financial reports for the grant funds received during the 2005 grant cycle. Without these financial reports, the IRS does not have any evidence that the grant funds received were used appropriately by these clinics. ^{5.2(e)}

The total amount of funds disbursed to these 3 clinics during the 2005 and/or 2006 grant cycles was \$43,577. In addition, a total of \$17,750 in reimbursed expenses and matching contributions was claimed by 3 clinics for items which are not allowable under LITC program guidelines.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; \$7.7 million (see pages 5 and 7).

Methodology Used to Measure the Reported Benefit:

We also found that the IRS does not have sufficient controls in place to ensure that the financial information it reports regarding the LITC program is accurate. Specifically, we did not find evidence that a documented review of a sample of clinics' reported expenditures and matching contributions with supporting documents was performed for any of the clinics receiving funds in the 2006 grant cycle. In addition, we found that although salary expense is frequently the largest single expense reported by clinics, *LITC Low Income Tax Clinic Grant Application Package and Guidelines* (Publication 3319) does not include any specific instruction or guidance regarding



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

how this expense should be calculated and what documentation is needed to support this calculation. For example, 6 (50 percent) of the 12 clinics we sampled did not utilize an appropriate or consistent methodology to substantiate the salary expense reported for the 2006 grant year. As a result of the insufficient controls, the IRS does not have assurance that the total dollar amount of the grants for the LITC program is accurately supported and verified. For the 2006 grant cycle, the IRS awarded grants totaling \$8 million to 149 clinics, and as of July 2007, \$7.7 million had been disbursed.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

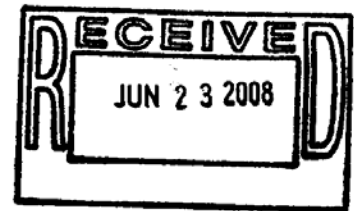
Appendix V

Management's Response to the Draft Report



National Taxpayer Advocate

June 23, 2008



MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Nina E. Olson 
National Taxpayer Advocate

SUBJECT: Draft Audit Report – Improved Controls Over Grants
Provided to Low Income Taxpayer Clinics Would Lower
the Risk of the Inappropriate Use of Federal Government
Funds (Audit # 200710009)

Thank you for the opportunity to respond to the above-captioned report on the administration of the Low Income Taxpayer Clinic (LITC) Program. In our response below, I will first address some of the general concerns identified in this audit, and then respond to the audit's specific recommendations, identifying the actions we plan to take in order to implement these recommendations.

BACKGROUND

In the IRS Restructuring and Reform Act of 1998, Congress enacted Internal Revenue Code (IRC) § 7526, which authorizes federal matching grants for low income taxpayer clinics that either (1) represent low income taxpayers in controversies with the Internal Revenue Service (IRS) or (2) operate programs to inform individuals for whom English is a second language (ESL taxpayers) about their rights and responsibilities under United States tax laws.¹ The IRS created the LITC Program in 1999 to administer this grant program, and from the program's inception through April 2003, the IRS Wage and Investment (W&I) operating division had program oversight responsibility. In May 2003, TIGTA issued a report entitled, *Improvements Are Needed in the Oversight and Administration of the Low-Income Taxpayer Clinic Program*.² Effective that same

¹ Pub. L. No. 105-106, § 3601(a).

² Treasury Inspector General for Tax Administration, *Improvements Are Needed in the Oversight and Administration of the Low-Income Taxpayer Clinic Program*, Ref. No. 2003-40-125 (May 2003).

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

2

month, the IRS transferred the responsibility for administering the LITC grant program from the W&I operating division to the Office of the Taxpayer Advocate. In 2005, TIGTA issued an additional report entitled, *Progress Has Been Made but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program*.³

As the founder of the first independent low income taxpayer clinic in the nation and as one who worked hard to help craft the legislative language establishing the LITC Program in 1998, I am committed to seeing the Program fulfill its very important mission. Since taking over responsibility for the Program, my office has worked diligently to make LITC services available to low income taxpayers throughout the United States. The LITC Program now funds at least one clinic in all 50 states, plus the District of Columbia, Puerto Rico, and Guam.⁴ In 43 states, the District of Columbia, and Puerto Rico, both controversy and ESL services are available. Since assuming responsibility for the LITC Program, my office has also sought to improve the quality of the clinics by establishing standards of operation and providing training to the clinics on these standards. In addition, we have put significant effort into ensuring that all grant recipients function within established guidelines for the LITC Program. As I discuss below, we are addressing issues of unclear guidance and proper use of grant funds among grantee organizations.

The present audit covers the 2006 grant cycle (January 1, 2006, through December 31, 2006). I believe that we have made significant additional improvements for subsequent grant cycles and we will continue to work to improve the Program in coming years. I personally found many of the audit report's recommendations very helpful and appreciate the thorough analysis by the audit team. As discussed below, we agree with all of your recommendations and will take action to implement them.

³ Treasury Inspector General for Tax Administration, *Progress Has Been Made but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program*, Ref. No. 2005-10-129 (Sep. 2005).

⁴ The total number of funded clinics for the 2008 grant cycle is 154 clinics in 53 states or territories.

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

3

**Prompt Follow-up is Needed When Clinics Fail to File All Required
Financial and Program Information**

- *The NTA should develop and implement procedures to address instances where clinics have received funds but cannot or will not document that grant funds were used appropriately.*

I agree that procedures to address clinics that fail to file interim and year end reports are necessary to ensure that grant funds are being spent appropriately. To this end, we have developed and implemented guidance that lay out the procedures for following up with grantees that have not filed required reports. Program Analysts and supervisors will contact clinics failing to timely submit complete reports. These clinics risk having current year LITC funds frozen and ultimately deobligated should their delay persist. My office is working to ensure that complete and accurate records are maintained, including the dates the reports are submitted and whether the reports are complete. This information is then used to make decisions on grant awards for subsequent grant cycles. Clinics that have not submitted year end or interim reports will not receive grant funds in future years.

The newly implemented procedures also spell out timelines for LITC Program Analysts in making these contacts to ensure that action is taken timely to freeze or deobligate remaining funds, thus reducing the risk of improper use of grant funds. The LITC Program Office and TAS do not have enforcement authority, apart from freezing or deobligating funds. Therefore, we are limited in our ability to recoup funds from clinics that do not submit required reports. I have worked with the Office of Chief Counsel to develop procedures for issuing a demand letter to a clinic who fails to submit required reports. This letter would demand that organizations that continue to fail to submit required reports must return grant funds covered by those reports. As we identify potential irregularities regarding the use of grant funds or failure to submit required reports, we will make referrals to TIGTA for investigation. The LITC Program Office has developed a relationship with the TIGTA Procurement Fraud Unit to aid in handling any clinic that fails to respond to repeated contact. This relationship was established to allow the Program Office to refer the names of clinics that, despite repeated contacts, refuse or are unable to submit required reports. I believe that contact from the Program Office along with the risk of referral to TIGTA's Procurement Fraud Unit will significantly reduce the risk of improper use of LITC grant funds.

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.



Improved Controls Over Grants Provided to Low Income Taxpayer Clinics Would Lower the Risk of the Inappropriate Use of Federal Government Funds

4

- *The NTA should take action to address the noncompliance of the 3 clinics that failed to provide support for the spending of grant funds.*

I agree that we must take steps to address organizations that spend grant funds without filing required reports. The three clinics referenced here were granted funds in 2006 and failed to file reports for that year. None of these clinics was awarded LITC grant funds in subsequent years and will not receive additional funds in the future so long as reports have not been filed. I will consider sending demand letters to the three clinics in question. ^{5,2(e)}

my office's actions may end with a demand letter.

Regularly Scheduled, Comprehensive Reviews of Clinic Financial Information Need to Be Implemented

- *The NTA should develop and implement a process to conduct periodic random onsite clinic financial reviews.*

I agree that reviews of clinic financial information are important to ensuring that improper expenses are identified and corrected before the problems become large and unmanageable. To this end, the LITC Program Office has developed and implemented procedures for random sampling of clinic invoices and receipts along with a review of the accounting systems in place at each clinic. Because each clinic is visited within 90 days of entering the program, these reviews will allow analysts to identify improper individual expenses and systemic financial issues while there is still time to make corrections. Program Analysts will record on a check sheet that they have conducted the sampling and will record any unusual or problematic findings both on the sheet and in their site assistance visit report. The LITC Program Office will follow up on any unusual expenses and will perform further reviews as needed. The TAS Finance Director has designated a financial analyst from her staff to supplement the LITC staff reviews of clinic financial records in situations where such assistance is needed.

LITC Program Analysts are not trained auditors and lack the knowledge and ability to conduct comprehensive financial reviews. Additionally, the LITC Program Office lacks necessary funding to devote the time and staffing for comprehensive financial reviews. I believe that improper uses of grant funds are due almost entirely to mistakes and not willful misappropriation of funds. Our sampling will address these mistakes with the clinics and help produce and develop necessary financial guidance for all clinics.

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

5

- *The NTA should update the guidelines provided to program participants to include information regarding the performance of periodic grant reviews and the potential for disallowance and recovery of improper or unsupported funds identified in these reviews.*

I agree that clinics need to be aware that consequences exist for improper expenses and exactly what those consequences are. I have included language in the most recent IRS Publication 3319 that describes the financial review to be undertaken during site assistance visits.⁵ I view site visits as more than an opportunity to verify that organizations are complying with grant conditions. We refer to our clinic visits as "site assistance visits" because the visits provide an opportunity to communicate directly with clinics and their personnel and give advice on best practices. Clinics also have the opportunity to let analysts know of problems the clinic faces. This information aids the program office in modifying general clinic guidance. With this goal in mind, analysts will use site assistance visits to educate and inform clinics of grant requirements, especially those related to the disallowance of unsupported or unallowable expenses.

Currently there is no language in Publication 3319 expressly stating that funds associated with improper expenses must be returned to the IRS or reimbursed. Future versions of Publication 3319 will address improper expenses and their consequences more fully. Clinics using LITC funds for improper expenses will be expected to return those funds or otherwise make a proper accounting. I will work to make clinics aware of the consequences of requesting grant funds for unallowable expenses and how such expenses should be handled through periodic communication with the clinics and during the annual LITC conference in December 2008.

Proper Management and Reporting of Grant Funds

- *The NTA should revise and expand the guidelines relating to the calculation and documentation of salary expenses.*

I agree that salary expenses make up the largest portion of LITC budgets, both as actual expenses and as matching funds. I also agree that in order to ensure clinic compliance with grant terms and conditions, clinics must be aware of those same terms and conditions and be given the tools to meet them. I have taken steps to address this problem, but recognize that more needs to be done. For example, I suggested to the clinics that they use LITC grant funds to purchase case-tracking software. This software can track employee time spent on individual cases, making calculation of time spent on LITC issues less onerous.

⁵ See Publication 3319, *Low Income Taxpayer Clinic 2009 Grant Application Package and Guidelines* at 31 (2008).



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

6

Our primary source for operational and financial guidance, Publication 3319, does not contain any explicit references to proper calculation and documentation of salary expenses. The publication does, however, reference OMB Circulars which lay out requirements for tracking of salary expenses.⁶ I and my staff do not think a one-size-fits-all documentation requirement for salary expenses is appropriate for a program that has so many different types and sizes of organizations. Therefore, the LITC Program Office will craft language that adequately informs clinics of their requirements under the grant while still giving them necessary flexibility. Future versions of Publication 3319 will clarify the need for accurate calculation and proper documentation of salary expenses. In addition, the LITC Program Office will make clinics more aware of their documentation requirements under the grant through the annual LITC conference and other communication throughout the year.

- *The NTA should re-emphasize the requirements for documentation of volunteer services.*

I agree that more should be done to ensure that clinics are able to properly account for volunteer time. To this end, my office is working to develop a sample volunteer time sheet. Participating clinics run the gamut from small, independent non-profits to large legal aid societies and universities. Because clinics differ in size and available resources, my office will ensure that any forms issued by the Program Office are not overly burdensome. Smaller clinics with limited resources may not be able to provide the same depth of information that a large legal aid society or university may be able to produce. Large, well-funded organizations may be able to more easily provide more detailed information through sophisticated tracking software or dedicated accounting departments that smaller nonprofits may not have.

In addition to the development of a standard log sheet to track volunteer activities, the Program Office will discuss the need for proper documentation of volunteer time during the annual LITC conference in December.

- *The NTA should take appropriate follow-up actions regarding unallowable expenses uncovered during TIGTA's clinic reviews.*

I agree that even without grant enforcement authority, we must address unallowable expenditures involving LITC funds. We will address this issue primarily through education of current grantees. At the annual LITC conference, we will devote time to covering proper expenses under the grant. We will also use this time to hear from clinics if they are having difficulties in accurately

⁶ See OMB Circular A-110 § 23(a)(1) (1999), OMB Circular A-21 § J (2000).



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

7

determining whether an expense is proper under the grant. This will allow us to better inform the clinics through our formal and informal guidance. Also, the Program Office will use site assistance visits to aid clinics on the proper use of grant funds.

The LITC Program Office and I will work to address unallowable expenses and develop a policy that stresses the seriousness of the issue yet provides flexibility for the clinics to address unallowable expenses. The Program Office and I will follow up with the clinics identified as having incurred unallowable expenses and will work with them to identify unclaimed allowable expenses or recoup those funds.

Thank you for the opportunity to review and comment on this report and for the open nature of the audit itself. I will discuss this report and its recommendations with the clinics at the upcoming annual LITC conference in December 2008. If you have any questions or concerns, please contact me or have a member of your staff contact Cathy Vanhorn at (904) 665-1169 or Chris Lee at (202) 622-8391.

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

8

Summary of TIGTA Recommendations and Management Response

TIGTA Recommendation 1: The National Taxpayer Advocate, in coordination with the IRS Office of Chief Counsel, should develop and implement procedures to address instances in which grant funds have been disbursed to a clinic and that clinic cannot, or will not, document that grant funds were used appropriately.

Corrective Actions:

1. The LITC Program Office has developed and implemented procedures for following up with clinics that fail to file interim and year-end reports in a timely or complete manner.
2. The LITC Program Office will continue to publicize the problem of late and incomplete reports and stress their importance during site-assistance visits, periodic communications, and the annual LITC conference.

Completion Dates:

1. Completed.
2. February 15, 2009.

TIGTA Recommendation 2: The National Taxpayer Advocate should take appropriate action to address the noncompliance of the 3 clinics which failed to provide support for \$43,577 in grant funds.

Comment: The three clinics that failed to provide report for their grant activities in 2006 are no longer participating in the LITC program. I have committed that I will not provide funds to clinics that have failed to submit interim or year-end reports. The clinic that also failed to comply with its filing obligations related to the 2005 grant cycle was able to secure funding for the 2006 grant cycle because the year-end reports for 2005 were not due until after the 2006 grant cycle decisions had been made.

Corrective Actions: TAS maintains records of those clinics that do not submit timely reports. The LITC Program Office will continue its current practice of performing a management review of all applications before clinic funds are awarded, and using the timeliness of reports as a factor on which it bases its funding decisions. Clinics that continue to fail to submit reports after repeated contact from the LITC Program Office will be referred to TIGTA for possible investigation.

Completion Dates: Completed

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

9

TIGTA Recommendation 3: Develop and implement a process to conduct periodic random onsite financial reviews of a sample of clinics. The financial reviews should include the verification of a sample of reported expenditures with source documents, such as invoices and receipts.

Comment: I am committed to performing a random sampling of invoices and receipts during site assistance visits. I would like to note that the LITC Program Office lacks individuals experienced with in-depth financial audits. Additionally, the Program Office lacks the personnel to devote the time required for such a substantive financial review. If the sampling of invoices and receipts during site assistance visits yields results that require a deeper review, the Program Office will refer those cases up the chain of command within the Program Office and, where appropriate, to the Treasury Inspector General's office, which has greater resources and experience in financial audits. TAS Finance staff analysts have also been made available to the LITC Program Office in cases where their knowledge and abilities prove useful. Any and all cases being referred to TIGTA for such financial issues will be approved by the National Taxpayer Advocate prior to referral.

Corrective Actions: The LITC Program Office has developed and is implementing procedures to randomly sample invoices and receipts during LITC site assistance visits.

Completion Dates: Completed.

TIGTA Recommendation 4: Update the guidelines provided to program participants to include information regarding the performance of periodic grant audits or reviews by the IRS and the potential disallowance and recovery of improper/unsupported costs identified as a result of these reviews.

Corrective Actions:

1. IRS Publication 3319 has been updated and now includes language referring to periodic sampling and verification of expenses. The LITC Program Office will draw attention to the language in the current Publication 3319 regarding periodic reviews and audits during site assistance visits and during upcoming LITC conferences.
2. The LITC Program Office will include clearer language regarding the possible disallowance and recovery of improper grant fund expenditures in future versions of Publication 3319 and will highlight this information at the next annual LITC conference and during site assistance visits.

Completion Dates:

1. Completed.
2. July 15, 2009.

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

10

TIGTA Recommendation 5: Revise and expand the instructions and guidelines provided to program participants to include specific guidelines regarding how salary expenses should be calculated and documented.

Comment: Publication 3319 does not include specific language regarding the computation of salary expenses. However, the publication does reference OMB circulars that define, in detail, the documentation requirements associated with salary expenses and matching funds.

Corrective Action: The LITC Program Office will work to make this information clear to participating clinics in subsequent edits to this publication and will work to ensure that clinics are aware of the OMB Circulars and the requirements therein through edits to IRS Publication 3319. I will also make the requirements contained in OMB circulars more available through discussion at the annual LITC conference and in site assistance visits.

Completion Date: July 15, 2009.

TIGTA Recommendation 6: Re-emphasize the documentation requirements for volunteer services to all current program participants.

Corrective Actions: The LITC Program Office, under the guidance of the National Taxpayer Advocate and with the aid of the IRS Office of Chief Counsel, is developing clinic guidelines regarding the documentation of volunteer services. We will develop a pro forma log sheet and instructions to the clinics that meet the needs of all clinics without serving as an unnecessary burden to any participating clinic. This sample log sheet will be incorporated into the next Publication 3319.

Completion Dates: July 15, 2009.

TIGTA Recommendation 7: Take appropriate follow-up action regarding the \$17,750 of expenditures reported by clinics which are not allowable per LITC program guidelines.

Comment: All grant decisions take into account the past performance of the clinic whenever applicable. As in the past, the National Taxpayer Advocate and the LITC Program Office will use these unallowable expenses to help determine the amount of funding, if any, for the upcoming grant cycle.

Corrective Action: The National Taxpayer Advocate and the LITC Program Office will determine how best to address the unallowable expenditures of grant funds, including identifying unclaimed allowable expenses. The Program Office

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.



*Improved Controls Over Grants Provided to Low Income
Taxpayer Clinics Would Lower the Risk of the
Inappropriate Use of Federal Government Funds*

11

will make clinics aware of the consequences for unallowable expenses at the next annual LITC conference.

Completion Date: February 15, 2009.

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.