



*Oversight and Administration of the  
Tax Counseling for the Elderly Program  
Need Improvement*

**April 29, 2008**

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TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 29, 2008

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

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

**SUBJECT:** Final Audit Report – Oversight and Administration of the Tax  
Counseling for the Elderly Program Need Improvement  
(Audit # 200740041)

This report presents the results of our review to determine whether the Tax Counseling for the Elderly (TCE) Program is effectively administered and is in compliance with legal requirements.<sup>1</sup> This audit was conducted as part of the Treasury Inspector General for Tax Administration Office of Audit Fiscal Year 2007 Annual Audit Plan.

*Impact on the Taxpayer*

Over the last 3 calendar years, the Internal Revenue Service (IRS) Volunteer Program has assisted taxpayers with filing more than 6.5 million Federal income tax returns. The TCE Program prepared more than one-half of these returns. However, the TCE Program has not been effectively administered, and current management information and performance measures do not provide adequate oversight for the Program. This limits the IRS' ability to assure that the Program is meeting the intent of the law and primarily serving elderly taxpayers.

*Synopsis*

The IRS Volunteer Program plays an increasingly important role in achieving the IRS' goal of improving taxpayer service and facilitating participation in the tax system. The TCE Program plays a significant role in the Volunteer Program, preparing more than one-half of the tax returns

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<sup>1</sup> The TCE Program, which is part of the Internal Revenue Service Volunteer Program, provides free tax assistance to people age 60 and older (hereafter referred to as the elderly). The law authorizes an appropriation of special funds, in the form of a grant, to the TCE Program.



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prepared by volunteers. Nevertheless, based on the data provided and tested, we could not determine if the 2006 TCE Program met the intent of the law or successfully directed its services to the elderly population.

The TCE Program has not been effectively administered. The IRS does not have effective controls or monitoring processes to ensure that funds are appropriately spent, and management information is not sufficient to provide adequate oversight for the Program. Additionally, there are insufficient performance measures to evaluate the success of the Program. Tests of the 58 Fiscal Year 2006 Program grantees showed:

- The selection process needs to ensure that the most-qualified applicants are selected. Few guidelines and procedures exist on how to rate applicants, select grantees, and allocate grant funds. Not all applications were logged in, and no documentation existed to show that all applicants were considered. Additionally, the IRS conducted no demographic analysis of elderly taxpayers to weigh applicants' geographic coverage, either individually by applicant or for the TCE Program as a whole. No specific criteria were used to select the grantees or to determine the amount of the award to grant each organization.
- Better controls and more monitoring are needed to ensure that grantees are spending funds appropriately. The IRS does not verify the majority of expenses or conduct any analyses to identify whether expenses appear reasonable. No supporting documentation existed to verify how grantees spent their grant funds. In addition, the instructions in the IRS Publication and Form<sup>2</sup> used to report how grant funds are spent are confusing and unclear as to what should be reported to the IRS.
- Better management information is needed to help provide effective oversight and ensure that grantees are directing their services to the elderly and operating as intended. No centralized management information system captures and controls grantees' current year activities, including fund withdrawals, expenses reported, and tax preparation assistance.

***Limited TCE Program grant data are captured in a central management information system, which prevents effective and efficient monitoring and tracking.***

Furthermore, performance measures and goals are needed to evaluate the success of the TCE Program. Currently, the IRS measures only the number of tax returns prepared, the percentage of returns prepared electronically, and the number of taxpayer contacts for its Volunteer Program as a whole and has no measures specific to the TCE Program (i.e., no measures to evaluate the individual grantees or the Program as a whole).

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<sup>2</sup> *Application Package and Guidelines for Managing a TCE Program* (Publication 1101) and *Tax Counseling for the Elderly Program Quarterly/Final Report* (Form 8654).



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### *Recommendations*

We recommended that the Commissioner, Wage and Investment Division, 1) establish a process and system of controls to ensure that the most-qualified applicants are selected for the TCE Program, 2) establish a process and system of controls to ensure that grant funds are expended appropriately and grantees are held accountable, 3) revise the IRS Publication and Form used to report Program costs to clarify what is to be reported to the IRS, 4) develop a management information system to oversee, control, and measure the Program's activities and goals, and 5) establish performance measures to gauge the Program's success in meeting its goals and objectives, including directing services to elderly taxpayers.

### *Response*

IRS management agreed with all of our recommendations. They have established scoring, ranking, and selection criteria for grantees that include how the grant funds are allocated and used historical performance data in scoring the Fiscal Year 2008 applicants. The IRS will document all actions taken during the year of the grant within each organization's case file and continue to enhance this process by tracking and documenting steps taken during the grant and award process. It will ensure that internal manuals are updated and accurately reflect these processes and controls.

The IRS has established a process and system of controls to ensure that grant funds are expended appropriately and that grantees are held accountable. During Fiscal Year 2007, financial reviews of the TCE Program were instituted to examine policies, procedures, and controls. The IRS has developed TCE Financial Review Guidelines and an onsite checklist for use during site reviews. In October 2007, it hired three individuals to conduct such financial reviews on an ongoing, annual basis. The IRS is using its Statistics of Income Office to select the Fiscal Year 2009 TCE Grant Program recipients for reviews that will be conducted following the conclusion of the 2008 Filing Season.<sup>3</sup>

In Fiscal Year 2007, IRS management developed new processes to ensure that consideration was given as to whether sponsoring organizations were in compliance with administrative program requirements and allocation of funds. The IRS is in the process of revising Publication 1101 and Form 8654 for use by 2009 TCE Program applicants.

IRS management agreed to the benefits of using a management information system to capture and retain data to measure Program activities and effectiveness. They will explore use of a database used by another IRS office that also administers grants.

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<sup>3</sup> The period from January through mid-April when most individual income tax returns are filed.



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The IRS also agreed that performance measures are necessary to gauge the TCE Program's success in meeting its goals and objectives, including the goal of directing services to elderly taxpayers. It has an existing measure, Volume of Taxpayers Served, which is representative of the Program's success. Other measures include Volunteer Return Preparation Program Accuracy, Local Partner Satisfaction/Dissatisfaction, National Partner Satisfaction/Dissatisfaction, and Taxpayer Contacts. Management will continue to use existing measures to gauge performance and expand their focus on targeting the elderly population to enhance Program success. Management's complete response to the draft report is included as Appendix VIII.

### *Office of Audit Comment*

Although IRS management agreed that performance measures are necessary to gauge the TCE Program's success in meeting its goals and objectives, they stated that they have an existing measure, Volume of Taxpayers Served, which is representative of the Program's success. However, the IRS does not have performance measures specific to the TCE Program. For example, it does not measure and report whether the Program is meeting the goal of serving the elderly population.

The IRS did not agree with the potential outcome measure of \$3.9 million, which represents the amount of grant funds drawn from the Fiscal Year 2006 TCE Program. The IRS stated that it has begun implementing several corrective actions to strengthen its financial oversight of the grant program and will continue to work with the United States Department of Health and Human Services to resolve account closings and over-advanced amounts.<sup>4</sup>

Nevertheless, our test results showed that the IRS does not verify the majority of expenses and does not conduct any analyses to identify whether expenses appear reasonable. We could not determine if any funds had been spent inappropriately because there were no expense receipts to compare to reported expenses or any documentation to show whether expenses had been verified or analyzed for reasonableness. Therefore, based on the data provided and tested, we could not determine if the 2006 TCE Program met the intent of the law or successfully directed its services to elderly taxpayers.

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 Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.

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<sup>4</sup> Grant funds are maintained and distributed through the Health and Human Services Payment Management System.



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*Abbreviations*

AARP	American Association of Retired Persons
IRS	Internal Revenue Service
SPEC	Stakeholder Partnerships, Education, and Communication
TCE	Tax Counseling for the Elderly
VITA	Volunteer Income Tax Assistance
STARS	SPEC Taxpayer Assistance Reporting System



## Oversight and Administration of the Tax Counseling for the Elderly Program Need Improvement

### Background

The Internal Revenue Service (IRS) Volunteer Program plays an increasingly important role in achieving the IRS' goal of improving taxpayer service and facilitating participation in the tax system. The Volunteer Program includes the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) Programs. The VITA Program offers free tax help for low- to moderate-income (about \$39,000 and below) individuals. The TCE Program provides free tax help to people age 60 and older (hereafter referred to as the elderly).

Over the last 3 calendar years, the Volunteer Program has assisted taxpayers with filing more than 6.5 million Federal income tax returns. The TCE Program prepared more than one-half of these returns. Figure 1 provides a breakdown of the volume of tax returns prepared by the Volunteer Program during January through September 2007.

**Figure 1: Tax Returns Prepared by the Volunteer Program  
(January - September 2007)**

Volunteer Program	Number of Tax Returns Prepared	Percentage
VITA and Colocated VITA*	846,450	34%
Military VITA	272,666	11%
TCE (Non-AARP**)	51,203	2%
TCE (AARP)	1,293,202	52%
Other	23,484	1%
<b>Totals:</b>	<b>2,487,005</b>	<b>100%</b>

Source: Our analysis of data retrieved from the IRS management information system.

\*Colocated VITA = VITA site located in close proximity to a Taxpayer Assistance Center.<sup>1</sup>

\*\*AARP = American Association of Retired Persons.

The Revenue Act of 1978<sup>2</sup> authorized the TCE Program. The IRS can enter into agreements with private or nongovernmental, public, nonprofit agencies and organizations to provide training and technical assistance to volunteers who provide free tax counseling and assistance to elderly individuals in the preparation of their Federal income tax returns. The law authorizes appropriation of special funds, in the form of grants, to provide tax assistance to the elderly.

<sup>1</sup> These are IRS offices with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.

<sup>2</sup> Pub. L. No. 95-600, 92 Stat. 2810.





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Treasury Regulations<sup>3</sup> state that all tax preparation provided under this Program must be free of charge and must be provided only to elderly individuals. The IRS receives the funds as a line item in the budget appropriation.

In 1980, the IRS established the first cooperative agreement in the TCE Program, awarding the American Association of Retired Persons (AARP) a grant of all available funds to operate Tax-Aide/TCE Program sites. In Fiscal Year 1992, 57 grantees were accepted into the Program, and the number of applicants awarded grants has remained consistent.

**An organization interested in becoming a TCE Program grantee must meet the following eligibility criteria prior to submitting an application to the IRS. A grantee:**

1. *Must be a private or public, nonprofit organization that qualifies for exemption status under Section 501 (c) of the Internal Revenue Code of 1986.*
2. *Must have experience in coordinating volunteer programs.*
3. *Must operate programs that serve and assist elderly individuals.*
4. *Cannot be a Federal, State, or local governmental agency or organization.*
5. *Must be compliant with "Common Rule Certifications" contained in the Application Package and Guidelines for Managing a TCE Program (Publication 1101).*
6. *Must be compliant with applicable civil rights requirements.*

Source: IRS internal guidelines.

including transportation, meals, and other expenses incurred by them in providing tax counseling assistance at locations convenient to taxpayers. In addition to volunteers' out-of-pocket costs, funds may be used by the grantee organization for administrative expenses. These include 1) salaries, wages, and benefits of clerical personnel, 2) office supplies and equipment with a unit cost of less than \$15, 3) printing and postage costs, 4) installation of telephone lines necessary to

The TCE Program appropriation was \$3.95 million for each of Fiscal Years 2005 through 2007. Although other organizations have been awarded TCE Program grants since 1980, the AARP receives approximately 85 percent of the Program's grant funds. Grants awarded in Fiscal Year 2006 ranged from \$1,348 to \$46,000 for non-AARP grantees. The grant awarded to the AARP was \$3,435,658.<sup>4</sup>

Eligible agencies and organizations compete annually for TCE Program grants in compliance with the Federal Grant and Cooperative Agreement Act of 1977.<sup>5</sup> Applicants apply using *Application Package and Guidelines for Managing a TCE Program* (Publication 1101).

IRS guidelines are specific as to how funds may be spent. Volunteers may be reimbursed for costs associated with assisting taxpayers. Grant funds are used to reimburse volunteers for out-of-pocket costs

<sup>3</sup> Treas. Reg. Section 601.803(c) (1979).

<sup>4</sup> See Appendix VII for a list of grantee amounts awarded for Fiscal Year 2006.

<sup>5</sup> Pub. L. No. 95-224, 92 Stat. 3, February 3, 1978, codified at 31 U.S.C. Chapter 63.



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service a telephone answering site, 5) rent, utilities, and custodial services when necessary, and 6) costs for interpreter services. IRS guidelines state that only 30 percent of grant funds awarded can be used for administrative expenses.

Grant funds are maintained and distributed through the United States Department of Health and Human Services Payment Management

System. The IRS enters the grantees and their award amounts into this System. Grantees draw funds directly from it via direct deposit. They are allowed to draw an advance payment of up to one-half of the grant amount awarded.

***After being awarded the grants, TCE Program grantees are allowed to draw an advance payment of up to one-half of the amount awarded.***

After the initial advance payment, grantees must incur Program expenses before submitting requests for reimbursement. Expenses are reported to the IRS on the Tax Counseling for the Elderly Program Quarterly/Final Report (Form 8654),<sup>6</sup> which grantees are required to submit to the IRS within 30 business days following the end of each quarter. Final reports are due to the IRS within 3 months of the end of the Program or no later than December 31.

The Wage and Investment Division Stakeholder Partnerships, Education, and Communications (SPEC) function is responsible for the IRS Volunteer Program.



The objective of the TCE Program is to provide free assistance to elderly taxpayers in the preparation of Federal income tax returns by providing training, technical, and administrative support to volunteers under the direction of nonprofit agencies and organizations that have cooperative agreements with the IRS.

This review was performed at the Wage and Investment Division Headquarters in Atlanta, Georgia, in the SPEC function and at the Oversight and Analysis Staff function in Lanham, Maryland, during the period July through December 2007. 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>6</sup> See Appendix V. Form 8654 reports, for example, administrative expenses, total costs, and funds advanced, in addition to actual tax preparation activity such as the number of individual Federal tax returns prepared and filed on paper and electronically and the number of taxpayers assisted (excluding tax return preparation) for the elderly and others.



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## *Results of Review*

### ***Improvements Are Needed to Ensure That the Most-Qualified Applicants Are Selected and Funds Are Spent Appropriately***

The TCE Program accounts for more than one-half of the tax returns prepared in the IRS Volunteer Program. Nevertheless, only about 62 percent of the Calendar Years 2006 and 2007 tax returns prepared by the TCE Program grantees were prepared for elderly taxpayers. Figure 2 presents a breakdown of tax returns prepared by the TCE Program for this period.

***Figure 2: Tax Returns Prepared by the TCE Program for Calendar Years 2006 and 2007***

Tax Returns Prepared	Calendar Year 2006		Calendar Year 2007	
	Non-AARP	AARP	Non-AARP	AARP
Paper Tax Returns Prepared	8,523	236,068	12,590	239,519
Electronic Tax Returns Prepared	31,439	831,802	38,613	1,053,683
Total Tax Returns Prepared	39,962	1,067,870	51,203	1,293,202
Tax Returns Prepared for Elderly Taxpayers	17,691	664,200	25,570	846,764
Percentage of Tax Returns Prepared for Elderly Taxpayers	44%	62%	50%	65%
<b>Percentage of Tax Returns Prepared for Elderly Taxpayers</b>	<b>62%</b>		<b>65%</b>	

*Source: Our analysis of data retrieved from IRS management information systems.*

Based on the data provided and tested, we could not determine if the most-qualified applicants were accepted into the TCE Program or if the funds were spent appropriately. The Program has not been effectively administered. The IRS does not have an effective process or sufficient internal controls to ensure that the most-qualified applicants were selected. It also was not effectively monitoring the grantees to ensure that the funds were appropriately spent.

An integral component of every organization's management should be a system of internal controls that provides reasonable assurance of the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations. Internal controls should provide reasonable assurance that the objectives of the TCE Program are being met and that grantees are using funds according to the law and IRS regulations.



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### **The selection process needs to ensure that the most qualified applicants are selected**

IRS Publication 1101 instructs applicants on what they must do to submit an application package, including program and administrative requirements, instructions on how to apply, and an explanation of what happens after acceptance into the TCE Program. It also defines allowable and unallowable expenses and explains how to manage funds, submit reports, and close out the grants.

Conversely, internal guidelines provide only an overview of the application and selection process. They include few instructions and procedures on how SPEC function staff should rate applicants, select grantees, and allocate grant funds.

A review of case files for the 58 Fiscal Year 2006 grantees showed that the grantees met all eligibility requirements. In addition, the grantees submitted required narratives and proposed program plans<sup>7</sup> during the application process. However, we could not determine from the case files and other available records how many and what organizations applied for Fiscal Year 2006 grants and how the grantees were selected and awarded. Also, case files contained little support to show that the IRS selected applicants based on their technical evaluation score, the geographic location of the site, and the number of taxpayers who would be served.

Specifically:

- Not all applications were logged in, and no documentation existed to show that all applicants were considered. Lists of applicants and grantees did not agree with paper case files. A list of applicants contained 65 organizations; a list of grantees contained 60 organizations, but there were 79 applicant case files. Because of the discrepancy between the lists and the paper files, we could not determine if all application packages were considered.
- The Panel Review was not provided with established criteria or written guidelines to score the individual elements in each application package. The selection checklist included five categories with multiple subcategories to be scored (weighted) and considered by the Panel Review. However, no guidance was provided on how to score the subcategories.

#### **IRS guidelines state:**

1. *Members of the TCE Program Panel Review from the SPEC function field offices meet to review/rank all applications.*
2. *Panel Review members are provided with the evaluative criteria with which the applications will be ranked and will base recommended grant amounts for each organization on these criteria and the applicant's proposal.*
3. *Checklists are provided to ensure that all applications are complete and contain required information and certification documents.*

*Source: IRS internal guidelines.*

<sup>7</sup> A program plan provides a narrative on what the applicant has done in the past or existing programs and should include the overall plans to ensure compliance with laws and regulations, method to recruit and train volunteers, funds needed, type of program and site publicity, and plan for electronic filing services.



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- The SPEC function did not conduct 1) any demographic analyses of elderly taxpayers (either individually by applicant or for the TCE Program as a whole) to weigh applicants' geographic coverage or 2) any independent analyses of demographics to determine which areas of the country have high populations of elderly taxpayers that would benefit the most from the TCE Program during the application process. Of the 50 States and the District of Columbia, 12 States (24 percent) had a significantly disproportionate number of Fiscal Year 2006 TCE Program sites based on their elderly populations. Appendix VI presents an analysis of the demographics for the Fiscal Year 2006 TCE Program grantees.
- No specific criteria were used to select the grantees or to determine the amount of the award to grant each organization. Although each applicant's package was individually scored, the case files included no support to show why each grantee was selected (e.g., based on individual scores and a numerical ranking or to achieve appropriate geographic coverage). The IRS explained that officials met, discussed the applicants and application packages, selected the grantees, and judgmentally allocated award amounts. The officials did not document the rationale for the decisions made. Additionally, there was no independent review or validation of the applications, Panel rankings, or grant awards.

***Comparison of the number of Fiscal Year 2006 TCE Program sites to the elderly population by State showed that Kansas, Missouri, Maine, Minnesota, Oregon, and Vermont had proportionately more sites and Arkansas, Colorado, Delaware, Mississippi, South Carolina, and Virginia had proportionately fewer.***

The IRS needs to have controls in place to enhance the integrity of the evaluation and selection process. Without logging in each application when received, it has no assurance that all applicants are considered and treated fairly during the evaluation and selection process. There were no established criteria or written guidelines for selecting grantees and assigning grant/award amounts. Without specific criteria, consistent procedures, and internal controls, the IRS has no assurance that the best applicants were selected for the Program and the funds were appropriately allocated.

The IRS stated that it has begun to take the following corrective actions: 1) requiring that all actions taken on applicants and grantees be documented in the grantee case files, 2) adding evaluative criteria to rank the applications and weighted scoring for serving elderly taxpayers, 3) holding an orientation meeting for the Panel Review and conducting a secondary review of the Panel Review scoring, and 4) including in the application package an analysis of an applicant's prior years' data on the number of tax returns prepared for elderly taxpayers and information on its adherence to grant guidelines (e.g., if the grantee submitted forms in a timely manner or had administrative expenses of more than 30 percent).





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### **Better controls and more monitoring are needed to ensure that grantees are spending funds appropriately**

Internal guidelines and Publication 1101 provide general instructions on how the grantees should manage and account for grant funds. Expenses are allowable only for costs that would not have been incurred except for the Program. However, oversight is limited, and few controls exist to ensure that the funds are spent according to guidelines.

**Allowable expenses include:**

*Reimbursements to volunteers, publicity, and training costs directly and totally associated with the Program.*

*Salaries, wages, and benefits of clerical personnel.*

*Office supplies and equipment with a unit cost of less than \$15.*

*Rent, utilities, and custodial services when additional and necessary.*

*Miscellaneous services, such as printing, postage, insurance, etc.*

*Installation of telephone lines necessary to service a telephone answering site and/or a telephone line to support electronic filing.*

*Source: IRS internal guidelines.*

An analysis of the 58 Fiscal Year 2006 TCE Program grantee case files showed that the IRS does not verify the majority of expenses and does not conduct any analyses to identify whether expenses appear reasonable. We could not determine if any funds had been spent inappropriately because there were no expense receipts to compare to reported expenses or any documentation to show whether expenses had been verified or analyzed for reasonableness.

- Case files contained no supporting documentation to verify how grantees spent their grant funds. Form 8654 categorizes and reports expenses. However, the case files we reviewed contained no records or receipts supporting the expenses.

Guidelines do not require that grantees submit receipts for certain expenses. However, receipts are required for travel-related expenses for orientation meetings. Nonetheless, only two of the eight grantees claiming orientation meeting expenses submitted receipts or supporting documentation.

- Some grantees spent more than the allowed percentage of grant funds for administrative expenses. Publication 1101 instructs grantees that no more than 30 percent of the total grant funds awarded may be expended for administrative expenses. An analysis of the 58 grantees showed 9 (16 percent) reported spending more than 30 percent (or \$44,111) of the allowable funds on administrative expenses. None of the nine case files contained documentation showing any actions were taken to recover these funds. Six of the nine grantees were awarded Fiscal Year 2007 grants, including the four with the highest percentages of administrative expenses.
- Grantees reported total costs rather than only TCE Program costs on the Forms 8654, making it difficult to determine how the grantees used the Program funds and if the funds were used appropriately. Grantees may have operating funds other than TCE Program grant funds, including private donations or other Government grants. Form 8654 is to be used to report how TCE Program grant funds are spent. However, Publication 1101 is confusing and



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unclear as to whether grantees should report all expenses incurred or just those expenses paid out of or allocated to TCE Program grant funds.

Forty-seven of 58 grantees had funding other than TCE Program funds. Nine of the 58 reported total costs rather than just those expenses paid for or costs associated with TCE Program funds. For example, [REDACTED]

- Grantees did not submit Forms 8654 on time. Final Forms 8654 are to be submitted to the IRS within 90 calendar days of the end of Program activity. Twelve (21 percent) of the 58 grantees filed late final reports. Nine (75 percent) of these 12 grantees received TCE Program grants in Fiscal Year 2007.
- The IRS did not regularly monitor or analyze Forms 8654. It did not determine if expenses appeared reasonable or needed followup. Our analyses of various expenses identified some expenses significantly above the average. Figure 3 shows the results of our analysis of specific expenses reported on Forms 8654.

**Figure 3: Fiscal Year 2006 Expenses Reported by Non-AARP Grantees<sup>8</sup>**

	Travel Expenses	Supply Expenses	Rents	Electronic Filing Costs
Average Expenses for the 57 Non-AARP Grantees	\$172	\$591	\$594	\$699
Number of Non-AARP Grantees With Expenses More Than 50% Above Average	11 (19%)	9 (16%)	4 (7%)	12 (21%)
Average Expenses for Non-AARP Grantees That Reported These Expenses	\$350 for 28 Grantees	\$648 for 52 Grantees	\$1,692 for 20 Grantees	\$1,138 for 35 Grantees
Number of Non-AARP Grantees With Expenses More Than 50% Above Average	5 (18%)	7 (13%)	1 (5%)	6 (17%)

Source: Our analysis of Fiscal Year 2006 Forms 8654.

In some cases, after our additional analysis (e.g., reviewing the program plan or final narrative, or analyzing sites and tax return preparation activity), the expense, although above average, appeared reasonable.

<sup>8</sup> The AARP was not included in this analysis because the grant award and expense amounts claimed by the AARP skewed the averages.



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- Grant accounts were not reconciled and closed in a timely manner because either the filing of the final reports by the grantees or the updating of the Payment Management System was not done on time. Fifteen (26 percent) of the 58 Fiscal Year 2006 grant accounts had not been closed on the Payment Management System as of November 2007. Ten (67 percent) of these 15 grantees were also awarded Fiscal Year 2007 grants. When grantee accounts are not closed out, costs the IRS incurs to maintain the accounts on the Payment Management System continue to accrue. As of November 2007, the 58 grantees had drawn \$3,914,625 in grant funds from the Fiscal Year 2006 TCE Program.<sup>9</sup>

If grantees spend more than \$500,000 a year in total Federal Government awards, they are required to arrange for an audit by an independent auditor, in accordance with the Government Auditing Standards developed by the Comptroller General of the United States,<sup>10</sup> and to provide a copy of the audit report to the IRS. If the grantee does not meet the requirement, the IRS still has the authority to audit expenditures of TCE Program funds, regardless of the dollar amount of Federal Government funding received by the grantee.

***If grantees spend more than \$500,000 a year in total Federal Government awards, they are required to arrange for an audit— 23 of the 58 Fiscal Year 2006 TCE Program grantees met this requirement.***

Twenty-three of the 58 Fiscal Year 2006 grantees met this requirement. However, only 4 case files contained the required copies of the audit results. The other 19 files contained no support that the audits had been completed.

In October 2006, the SPEC function instituted financial reviews for the TCE Program. It collaborated with another IRS office to conduct 10 reviews. The reviewer was to look at receipts and expenditures. However, only six reviews were completed, with the results of only two being reported to the function. Additionally, IRS officials stated that SPEC function Headquarters personnel reviewed reports monthly to analyze expenditures drawn from the Payment Management System. No support for these reviews was provided to us.

The IRS advised us that in October 2007, the SPEC function hired three individuals to conduct annual financial reviews, including visitations. The results of the reviews will be maintained in the grantee case files, along with recommendations and corrective actions. If corrective actions are not taken, the IRS will determine the appropriate sanction, including requiring the grantee to return grant funds and removing the grantee from the TCE Program.

Financial reviews should be an integral part of controls in a grant program. The IRS should establish controls to track forms and analyze the financial information on Forms 8654 to help identify potential issues. This would assist the IRS in determining which sites to visit to ensure

<sup>9</sup> See Appendix IV.

<sup>10</sup> Audit requirements applicable to grant recipients are described in Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 62 FR 35278-35302 (June 30, 1997).





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that the information provided in the reports is accurate or which expenses to verify. Without an effective monitoring process, the IRS has no assurance that grant funds are being used appropriately and that recipients are complying with the terms and conditions of the grant.

The IRS has already begun corrective actions. For example, the SPEC function has improved the ranking criteria to ensure equitable ranking among the Panel Review members and among all organizations. It hired three financial reviewers in October 2007 to conduct financial reviews and visitations to determine if expenses are reasonable. Additionally, the SPEC function has instituted, as part of the award process, an annual conference call with field offices to discuss TCE Program expectations for the upcoming year and the actions that need to be accomplished.

### ***Recommendations***

The Commissioner, Wage and Investment Division, should:

**Recommendation 1:** Establish a process and system of controls to ensure that the most-qualified applicants are selected for the TCE Program. The process and system of controls should 1) track applicants through application/award; 2) establish scoring, ranking, and selection criteria for grantees, including how the grant funds are to be allocated; 3) use historical performance data, when applicable, as a criterion during the selection process; and 4) document steps taken during the grant/award process. Internal manuals should be updated to reflect the process and controls.

**Management's Response:** IRS management agreed with this recommendation. They have established scoring, ranking, and selection criteria for grantees that include how the grant funds are allocated, and they used historical performance data in scoring the 2008 applicants. The SPEC function Grant Program Office will document all actions taken during the year of the grant within each organization's case file using a history sheet that tracks applicants through the application and award process. Management will continue to enhance this process by tracking and documenting steps taken during the grant and award process. They will ensure that internal manuals are updated and accurately reflect these processes and controls.

**Recommendation 2:** Establish a process and system of controls to ensure that grant funds are expended appropriately and grantees are held accountable.

**Management's Response:** IRS management agreed with this recommendation. They have established a process and system of controls to ensure that grant funds are expended appropriately and that grantees are held accountable. During Fiscal Year 2007, financial reviews of the TCE Program were instituted to examine policies, procedures, and controls. Management has developed TCE Financial Review Guidelines and an onsite checklist for use during site reviews. In October 2007, the SPEC function hired three individuals to conduct such financial reviews on an ongoing, annual basis. The SPEC function is using the IRS Statistics of Income Office to select the Fiscal Year 2009



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TCE Grant Program recipients for reviews that will be conducted following the conclusion of the 2008 Filing Season.<sup>11</sup>

**Office of Audit Comment:** The IRS did not agree with the potential outcome measure of \$3.9 million, which represents the amount of grant funds drawn from the Fiscal Year 2006 TCE Program. The IRS stated that it has begun implementing several corrective actions to strengthen its financial oversight of the grant program and will continue to work with the Department of Health and Human Services to resolve account closings and over-advanced amounts.

Nevertheless, our test results showed that the IRS does not verify the majority of expenses and does not conduct any analyses to identify whether expenses appear reasonable. We could not determine if any funds had been spent inappropriately because there were no expense receipts to compare to reported expenses or any documentation to show whether expenses had been verified or analyzed for reasonableness. Therefore, based on the data provided and tested, we could not determine if the 2006 TCE Program met the intent of the law or successfully directed its services to elderly taxpayers.

**Recommendation 3:** Revise Publication 1101 and Form 8654 to make it clear that Form 8654 is to be used to report those expenses paid for or allocated to TCE Program grants.

**Management's Response:** IRS management agreed with this recommendation. In 2007, they developed new processes to ensure that consideration was given as to whether sponsoring organizations were in compliance with administrative program requirements and allocation of funds. The SPEC function TCE Grant Program Office is in the process of revising Publication 1101 and Form 8654 for use by 2009 TCE Program applicants.

### ***Better Management Information Is Needed to Help Provide Effective Oversight***

Guidelines require that specific information be gathered from TCE Program grantees using various SPEC function reports and Forms 8654. Although information is to be gathered from the Forms 8654, no central management information system captures these data. In addition, the current management information system used to capture Volunteer Program activities is not always accurate and does not provide historical data.

Based on the data provided and tested, we could not determine if the 2006 TCE Program successfully directed its services to the elderly population. The IRS does not have an effective process or sufficient management information to ensure that the Program is operating effectively, efficiently, or as intended by the law or regulations. Management information is essential to

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<sup>11</sup> The period from January through mid-April when most individual income tax returns are filed.



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control operations and make decisions and should be an integral component of a system of internal controls.

### **No system tracks the expectations and performance of TCE Program grantees**

No centralized IRS management information system captures and controls grantees' current year activities, including fund withdrawals, expenses reported, and tax preparation assistance. This information is essential to compare grantee and IRS expectations to accomplishments.

***Limited TCE Program grant data are captured in a central management information system, which prevents effective and efficient monitoring and tracking.***

The SPEC function maintains data for the Volunteer Program in the SPEC Taxpayer Assistance Reporting System (STARS), which includes the profiles and contact information for Program participants and site information. It also captures the number of taxpayer contacts for outreach activities, along with information about the activity conducted and the number of volunteers at each site, and controls the computers and software used to prepare the tax returns. The STARS was not designed to capture those data unique to the TCE Program (e.g., award amounts, expectations, funds distributions, expenses, or the number of tax returns prepared for elderly taxpayers). Thus, the IRS must use manual processes to monitor and oversee the Program, which is time consuming and ineffective.

### **The STARS has inaccurate data and does not provide historical data**

IRS guidelines require that all Volunteer Program tax preparation sites be listed on the STARS. However, the STARS data are limited and not always accurate. In addition, the System does not maintain historical data and is only a snapshot of current operations. Historical data must be separately captured, extracted, and stored.

The STARS tracks Volunteer Program organizations and their tax return preparation activity by Site Identification Number and STARS Program Code. Each Volunteer Program site is to be assigned a unique Site Identification Number, which identifies the original Program type (VITA, Military, AARP, and TCE Program) and the physical location of the site. TCE Program grantees are instructed to enter the Site Identification Number on all tax returns prepared to ensure that each site receives credit for the tax returns prepared at the site.

However, tests of Fiscal Year 2006 grantees identified inconsistencies. When auditors asked for a list of TCE Program sites for Fiscal Years 2006 and 2007, they were provided with three different lists. Figure 4 shows how the number of sites varied, depending on how the sites were input to the STARS and how the data were queried.



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**Figure 4: Number of TCE Program Sites in Fiscal Years 2006 and 2007**

TCE Program Site	September 2007		October 2007		November 2007	
	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2007
AARP	7,190	7,140	7,209	6,749	7,474	7,150
Non-AARP	502	308	253	281	348	298
<b>Total Sites</b>	<b>7,692</b>	<b>7,448</b>	<b>7,462</b>	<b>7,030</b>	<b>7,822</b>	<b>7,448</b>

Source: Forms 8654 and the STARS.<sup>12</sup>

An analysis of the data in Figure 4 showed the following discrepancies:

- 18 (32 percent) of the 57 non-AARP grantees had Site Identification Numbers that identified them as VITA Program sites. This affected 65 non-AARP TCE Program sites and 6 AARP TCE Program sites. When Volunteer Program organizations change Programs, they are not required to change their Site Identification Numbers. The IRS advised us it is too difficult to have the volunteer organizations do this.
- 26 (46 percent) of the 57 non-AARP grantees had sites that did not have unique Site Identification Numbers.

The SPEC function reports total volunteer assistance and does not report by Program type. SPEC function analysts stated that they can obtain data on the TCE Program using a STARS Program Code. However, when we attempted to do this, we identified 51 sites with incorrect Program Codes.

The STARS has been unable to track sites by grantee/organization. Therefore, determining activity by grantee has not been possible. Not all Fiscal Year 2006 sites listed in Appendix VI were associated with the grantees, requiring that Individual Site Identification Numbers be queried and then manually totaled.

The SPEC function is aware of these problems and is planning corrective actions. It plans to issue letters to its field offices requiring them to ensure that data entered in the STARS are accurate, including Program Codes and Site Identification Numbers. The field offices are also to ensure that the grantees and all their sites are linked within the STARS.

Finally, the STARS does not maintain historical information. Therefore, the IRS does not have records with which to gauge the progress of the TCE Program or the historical performance of the grantees. For example, the System cannot be queried to determine which grantees

<sup>12</sup> Data were extracted from static files that had been downloaded from the STARS and separately maintained.



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participated in a prior year and how many tax returns they prepared. This can be accomplished only if data have been extracted and maintained outside the System.

### **Recommendation**

**Recommendation 4:** The Commissioner, Wage and Investment Division, should develop a management information system to oversee, control, and measure the TCE Program's activities and goals. The system should capture grantees' historical and current year information and include information about the grantee such as 1) the number of sites and geographic dispersion; 2) grantee awards requested, made, and spent; 3) grant funds distributed and returned; 4) grantee expectations and planned activity; 5) grantee expenses related to the Program; and 6) actual tax returns prepared by the grantee for all taxpayers and elderly taxpayers.

**Management's Response:** IRS management agreed with this recommendation. They agreed to the benefits of using a management information system to capture and retain data to measure TCE Program activities and effectiveness. However, they will not be developing a new management information system because of the President's E-Gov Initiatives (M-04-08), which were created to avoid duplication of information systems. They will explore use of a database used by the Low Income Tax Clinic Office for administering its grants, as well as other existing databases, for comparative analysis of capabilities and adaptation to fit the TCE Program needs.

### **Performance Measures and Goals Are Needed to Evaluate the Success of the Tax Counseling for the Elderly Program**

**Performance measures reported by the SPEC function for its Volunteer Program:**

*Percentage of Individual Returns Prepared Electronically*

*Number of Taxpayer Contacts*

*Number of Tax Returns Prepared*

*Source: Wage and Investment Division Strategy and Program Plan Fiscal Year 2008 – Fiscal Year 2009.*

The Government Performance and Results Act of 1993<sup>13</sup> states that agencies should establish general goals and objectives, including those that are outcome-related, for the major functions and operations of the agency. Neither the SPEC function's \$69 million budget (which includes the Volunteer Program) nor the TCE Program's almost \$4 million in grant funds is significant to the IRS' more than \$10 billion budget. Nevertheless, the Volunteer Program plays an increasingly important role in achieving the IRS' goal of improving taxpayer service and facilitating participation in the

<sup>13</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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tax system. Additionally, the TCE Program is a Federal Government grant program and is currently a significant contributor to the Volunteer Program.

Regulations require grant funds to be used for tax return preparation only for elderly individuals. IRS guidelines state that, “All tax return preparation assistance provided under the TCE Program must be provided free of charge to taxpayers and must target the elderly population. The Program must be designed and operated to provide assistance to such individuals.”

Because the IRS had insufficient data and management information, we could not determine if the TCE Program had directed its resources and services to the elderly population and if the current level of tax preparation for the elderly represents success. Additionally, a lack of historical data on the TCE Program, including performance measures specific to it, prevented us from determining if the Program needs improvement or is improving.

Furthermore, the IRS does not evaluate the effectiveness of the individual grantees in meeting expectations, in successfully serving elderly taxpayers, or on the return on investment or average cost of tax returns prepared (i.e., the number of tax returns prepared with the grant funds awarded). Our analyses showed:

- Although approximately 62 percent of the tax returns prepared by the TCE Program were prepared for elderly taxpayers in Calendar Year 2006, only 27 (47 percent) of the 58 TCE Program grantees prepared the majority of their tax returns for elderly taxpayers in Fiscal Year 2006. Appendix VII presents a list of awards and the numbers and percentages of tax returns prepared for elderly taxpayers with the award funds.
- The average cost per tax return prepared, according to IRS records, was approximately \$3.57, with a range of \$1 to \$3,200.<sup>14</sup> Using the number of tax returns the grantees reported preparing on Forms 8654, the average cost per tax return was approximately \$3.13, with a range of \$1 to \$341. Appendix VII presents a list of each grantee’s average cost per tax return.

During Fiscal Year 2006, the IRS used \$10 to evaluate each applicant’s expected cost per tax return prepared. IRS officials advised us that, for Fiscal Year 2008, they have increased this to \$16 to better reflect current costs. They stated that this estimate is to be used to determine a reasonable amount of TCE Program grant funds, based on the applicant’s projected tax return preparation.

However, this type of information must be closely analyzed to evaluate the applicants’ projected activities and to determine if they met

***The IRS should analyze TCE Program information at the end of each fiscal year to assess each grantee’s accomplishments as well as those of the Program as a whole.***

<sup>14</sup> For one grantee, we used total cost for one return as \$3,200 because IRS records showed no returns were filed by this grantee.





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expectations. The IRS should analyze all information from Form 8654, along with data from the grantee's various computer systems, at the end of each fiscal year to assess each grantee's accomplishments as well as those of the TCE Program as a whole. These analyses are essential in determining if each grantee and the TCE Program are meeting the Program's goals and objectives.

In Fiscal Years 2005 to 2007, the IRS increased volunteer tax return preparation from 1.9 million to 2.5 million tax returns and improved the accuracy rate of tax returns prepared by its volunteers from 0 percent to 56 percent. It plans to continue expanding and improving the Volunteer Program. When asked their plans and expectations for the TCE Program, IRS officials stated that they would be contacting the Taxpayer Services Program Management Office to determine how the VITA and TCE Programs fit into the IRS Taxpayer Assistance Blueprint, which is the IRS' strategic plan for the future of service delivery. It presents portfolios of service improvements, performance measures, and additional research projects to provide a foundation for the future of service at the IRS.

Without TCE Program historical data and performance measures, the IRS cannot readily determine how the Program fits into its overall taxpayer service strategy, whether it is effectively directing services to the elderly population, and whether it is cost effective. The IRS needs to develop management information systems and performance measures to determine if the TCE Program is meeting the intent of the law and primarily serving the elderly.

### ***Recommendation***

***Recommendation 5:*** The Commissioner, Wage and Investment Division, should establish performance measures to gauge the TCE Program's success in meeting its goals and objectives, including directing services to elderly taxpayers.

***Management's Response:*** IRS management agreed with this recommendation, stating that they have an existing measure, Volume of Taxpayers Served, which is representative of the TCE Program's success. A variety of other measures is outlined in the 2008 SPEC Business Plan and the Wage and Investment Strategy and Program Plan. These measures include Volunteer Return Preparation Program Accuracy, Local Partner Satisfaction/Dissatisfaction, National Partner Satisfaction/Dissatisfaction, and Taxpayer Contacts. Management will continue to use existing measures to gauge performance and expand their focus on targeting the elderly population to enhance Program success.

***Office of Audit Comment:*** Although IRS management agreed that performance measures are necessary to gauge the TCE Program's success in meeting its goals and objectives, they stated that they have an existing measure, Volume of Taxpayers Served, which is representative of the Program's success. However, the IRS does not have performance measures specific to the TCE Program. For example, it does not measure and report whether the Program is meeting the goal of serving the elderly population.



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## **Appendix I**

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

Our objective was to determine whether the TCE Program is effectively administered and is in compliance with legal requirements. To accomplish this objective, we:

- I. Determined whether the IRS established adequate procedures and controls to ensure that
  - 1) grantees meet TCE Program requirements and 2) the IRS was meeting the Program's objective and goals.
    - A. Determined the method used to solicit applications for the Program.
    - B. Identified the application process and determined how the grantees were selected to participate in the Program by reviewing internal guidelines and *Application Package and Guidelines for Managing a TCE Program* (Publication 1101) and by:
      1. Reviewing the 58 Panel Review Application Packages for the Fiscal Year 2006 Program. We reviewed and tested Fiscal Year 2006 because this was the most recent year for which all closing actions should have been taken on grantee files.
      2. Comparing the performance (number of returns prepared, number of taxpayers assisted excluding returns prepared, etc.) for returning grantees to determine whether they should have been selected based on prior performance.
      3. Reviewing the documentation of the Notification of the Award Decisions to determine whether all grantees were provided sufficient notification.
- II. Interviewed the United States Department of Health and Human Services employees responsible for the TCE Program grants and determined the procedures used to reimburse the Program grantees as well as what controls were in place to safeguard funds and ensure that funds were expended according to the law.
- III. Determined whether the IRS established adequate financial controls to ensure that all TCE Program funds were safeguarded and expended according to the law.
  - A. Determined whether the IRS had procedures to review financial information submitted by Program grantees.
  - B. Determined whether the IRS effectively validated the financial information reported by Program grantees during the site visits by reviewing documentation of site visits and comparing the onsite financial information to that submitted to the Program office to determine the accuracy of reported information.





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- C. Determined whether the IRS had adequate procedures for collecting unexpended funds and transferring these funds to other taxpayer services before fiscal yearend.
  - D. Ascertained whether the IRS was accurately recording Program grant payments.
  - E. Reviewed the status of corrective actions taken by the IRS in response to the recommendations related to financial management of Program grantees.
- IV. Determined whether the TCE Program grantees were properly managing grant funds.
- A. Reviewed applicable legislation, Office of Management and Budget policies, and IRS procedures to determine all requirements.
  - B. Determined whether any Fiscal Year 2006 Program grantees had unexpended grant funds at the end of the grant period and whether these funds were returned to the IRS by reviewing reports and comparing amounts of funds received to funds expended and/or returned.
- V. Determined whether the SPEC function was ensuring that the TCE Program grantees were directing services to the appropriate population and providing appropriate coverage to elderly taxpayers.
- A. Obtained data from IRS computer systems and United States census data to determine the volume of tax returns filed electronically and by paper for Tax Processing Years 2006 and 2007. We also determined geographic dispersion. For each fiscal year, we validated a judgmental sample of 30 records from the data obtained from IRS computer systems by researching the Integrated Data Retrieval System<sup>1</sup> and matching the information.
  - B. Analyzed the data and determined whether the Program grantees and sites were located where the elderly populations were located.

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<sup>1</sup> This is the IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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**Appendix II**

*Major Contributors to This Report*

Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Augusta R. Cook, Director

Paula W. Johnson, Audit Manager

Jackie E. Forbus, Lead Auditor

Lynn Faulkner, Senior Auditor

Tracy Harper, Senior Auditor

Jean Bell, Auditor

Joe Butler, Information Technology Specialist

Kevin O’Gallagher, Information Technology Specialist

Jeff Williams, Information Technology Specialist



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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  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division  
SE:W:CAR  
Director, Strategy and Finance, Wage and Investment Division SE:W:S  
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI  
Director, Stakeholder Partnerships, Education, and Communication, Wage and Investment  
Division SE:W:CAR:SPEC  
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 Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S



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## **Appendix IV**

### *Outcome Measure*

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

#### **Type and Value of Outcome Measure:**

- Reliability of Information – Potential; \$3,914,625 (see page 4).

#### **Methodology Used to Measure the Reported Benefit:**

We examined documentation obtained from the IRS SPEC function and from the United States Department of Health and Human Services to determine amounts received by the 58 Fiscal Year 2006 TCE Program grantees. These grantees received \$3,914,625 in Fiscal Year 2006 Program awards as of November 2007. Because of the lack of internal controls, stakeholders cannot rely on the information the IRS is reporting about the Program's operations.



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Appendix V

Tax Counseling for the Elderly Quarterly/Final Report  
(Form 8654)

Form <b>8654</b> (June 2005)		Department of the Treasury — Internal Revenue Service <b>Tax Counseling for the Elderly Program</b> <b>Quarterly / Final Program Report</b>		1. Report Type <input type="checkbox"/> Quarterly <input type="checkbox"/> Final	
3. Recipient Organization Name				2. Fiscal Year	
Street Address		City	State	4. Report Period (Month, day, year) From / / To / /	
Account/Identifying Number		(a) Numbers		(b) Cost	
Reimbursement Expenses	5. To Volunteer tax assistants				
	6. To Volunteer instructors				
	7. To Volunteer coordinators/administrators				
	8. TOTAL (ADD lines 5-7)	0		0	
Administrative Expenses	9. Salaries/benefits (Clerical Staff Only)				
	10. Supplies—For TCE Program				
	11. Rent/utilities/custodial services—Prorated for TCE Program				
	12. Auditing				
	13. Travel (includes travel of paid staff to monitor sites, meet with SPEC Territory personnel, etc.)				
	14. Development of program publicity				
	15. Report processing				
	16. Telephone installation (No WATTS or 800 Lines)				
	17. Postage				
	18. Total administrative expenses (ADD lines 9 through 17, column (b)). This figure should not be more than 30% of line 19			0	
	19. Program cost (ADD lines 8 and 18 column (b))			0	
	20. Cost of Orientation Meeting				
	21. Costs for Electronic Filing				
	22. Total program cost (ADD lines 19, 20, and 21 column (b))			0	
	23. Total amount of federal advance				
24. Unexpended balance of federal advance (Subtract line 22 from 23)			0		
25. Refund to IRS (Complete on final report ONLY) (Take amount from line 24)					



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Account/Identifying Number	60+	Other
26. Number of individual Federal tax returns prepared (paper)		
27. Number of individual Federal tax returns prepared (e-file)		
28. Total number of individual Federal tax returns prepared (paper and e-file)	0	0
29. Number of taxpayers assisted—all other (excludes return preparation)		
30. Total number of taxpayers assisted (add lines 28 and 29)	0	0
<b>Other Information</b>	31. Number of Tax Preparation sites	<b>Numbers</b>
	a. Paper sites	
	b. e-file sites	
	c. Combination Paper/e-file sites	0
	d. Combination of lines 31a, 31b and 31c	0
32. Please attach to this form, a listing of each site's Location ID, its EFIN Number, whether the site is a combination paper/e-file site, and the volunteer return preparation hours for each site.		
Signature of responsible office	Date	Agency Use

**IRS Volunteer Income Tax Preparation and Outreach Programs Privacy Act Notice**

Privacy Act Notice—The Privacy Act of 1974 requires that when we ask for information we tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory. Our legal right to ask for information is 5 U.S.C. 301. We are asking for this information to assist us in contacting you relative to your interest and/or participation in the IRS volunteer income tax preparation and outreach programs. The information you provide may be furnished to others who coordinate activities and staffing at volunteer return preparation sites or outreach activities. The information may also be used to establish effective controls, send correspondence and recognize volunteers. Your response is voluntary. However, if you do not provide the requested information, the IRS may not be able to use your assistance in these programs.

Catalog Number 64330H

Form **8654** (Rev. 6-2005)

*Source: 2006 Application Package and Guidelines for Managing a TCE Program (Publication 1101).*



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**Appendix VI**

*Geographic Analysis of Fiscal Year 2006  
Tax Counseling for the Elderly Program Grantees*

Ranking by Number of TCE Program Sites	Ranking by the State's Elderly Population	State	Total Population by State	State's Elderly Population	Number of AARP Sites	Number of Non-AARP Sites	Total Number of TCE Program Sites
1	3	NEW YORK	19,306,183	3,415,729	514	130	644
2	1	CALIFORNIA	36,457,549	5,373,476	577	25	602
3	5	PENNSYLVANIA	12,440,621	2,487,309	402	21	423
4	4	TEXAS	23,507,783	3,244,467	361	7	368
5	16	MISSOURI	5,842,713	1,052,540	208	136	344
6	7	OHIO	11,478,006	2,060,785	331	6	337
7	2	FLORIDA	18,089,889	3,968,253	333		333
8	6	ILLINOIS	12,831,970	2,075,063	297	7	304
9	14	MASSACHUSETTS	6,437,193	1,161,333	298		298
10	9	NEW JERSEY	8,724,560	1,539,180	241	21	262
11	21	MINNESOTA	5,167,101	851,910	258		258
12	17	WASHINGTON	6,395,798	1,038,082	238		238
13	18	INDIANA	6,313,520	1,065,690	223	14	237
14	8	MICHIGAN	10,095,643	1,726,673	194	34	228
15	19	WISCONSIN	5,556,506	974,028	199	2	201
16	20	MARYLAND	5,615,727	906,755	191	1	192
17	28	OREGON	3,700,758	653,847	153		153
18	10	NORTH CAROLINA	8,856,505	1,493,958	140	11	151
19	11	GEORGIA	9,363,941	1,302,053	144		144
20	33	KANSAS	2,764,075	476,582	114	1	115
21	22	ALABAMA	4,599,030	839,067	41	66	107
22	13	ARIZONA	6,166,318	1,064,491	98		98
23	15	TENNESSEE	6,038,803	1,067,781	97		97
24	25	KENTUCKY	4,206,074	740,978	88	8	96
25	27	CONNECTICUT	3,504,809	639,905	91		91
26	39	MAINE	1,321,574	262,269	87		87
27	30	IOWA	2,982,085	574,144	80		80
28	37	NEBRASKA	1,768,331	308,200	72	7	79
29	47	VERMONT	623,908	116,980	75		75
30	12	VIRGINIA	7,642,884	1,238,524	70		70
31	24	LOUISIANA	4,287,768	722,289	69		69
32	41	IDAHO	1,466,465	236,145	69		69



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Ranking by Number of TCE Program Sites	Ranking by the State's Elderly Population	State	Total Population by State	State's Elderly Population	Number of AARP Sites	Number of Non-AARP Sites	Total Number of TCE Program Sites
33	23	SOUTH CAROLINA	4,321,249	778,695	68		68
34	29	OKLAHOMA	3,579,212	642,346	66		66
35	45	DELAWARE	853,476	158,690	62		62
36	42	NEW HAMPSHIRE	1,314,895	230,035	61		61
37	26	COLORADO	4,753,377	682,865	55	5	60
38	35	WEST VIRGINIA	1,818,470	377,447	60		60
39	43	RHODE ISLAND	1,067,610	199,678	52		52
40	34	NEVADA	2,495,529	396,998	48		48
41	40	HAWAII	1,285,498	243,893	47		47
42	36	NEW MEXICO	1,954,599	331,269	46		46
43	31	ARKANSAS	2,810,872	529,952	44		44
44	44	MONTANA	944,632	180,365	44		44
45	38	UTAH	2,550,063	309,236	43		43
46	32	MISSISSIPPI	2,910,540	494,756	41		41
47	51	DISTRICT OF COLUMBIA	581,530	97,668	25		25
48	50	ALASKA	670,053	71,812	23		23
49	46	SOUTH DAKOTA	781,919	145,378	22		22
50	49	WYOMING	515,004	88,965	17		17
51	48	NORTH DAKOTA	635,867	121,546	13		13

Source: Our analysis of United States census data and IRS TCE Program data.





*Oversight and Administration of the Tax Counseling for the Elderly Program Need Improvement*

**Appendix VII**

*Fiscal Year 2006 Tax Counseling for the Elderly Program Grant Amounts and Tax Return Preparation Activity*

Grant Amount	Number of Tax Returns Reported Per		Percentage of Tax Returns Prepared for Elderly Taxpayers Per		Return on Investment <sup>1</sup> Per	
	Forms 8654	IRS Computer System	Forms 8654	IRS Computer System	Forms 8654	IRS Computer System
\$1,348	430	14	47%	57%	\$3	\$96
\$1,700	1,681	1,101	61%	44%	\$1	\$2
\$1,786	266	288	20%	19%	\$7	\$6
\$1,800	480	358	20%	13%	\$4	\$5
\$1,821	550	412	100%	73%	\$3	\$4
\$2,000	357	309	100%	91%	\$6	\$6
\$2,510	415	95	100%	69%	\$6	\$26
\$2,569	100	75	42%	51%	\$26	\$34
\$2,600	646	1	40%	0%	\$4	\$2,600
\$2,618	321	184	100%	93%	\$8	\$14
\$2,700	797	561	75%	68%	\$3	\$5
\$2,900	2,035	296	50%	17%	\$1	\$10
\$2,951	34	11	62%	64%	\$87	\$268
\$3,000	213	87	100%	79%	\$14	\$34
\$3,000	338	146	100%	90%	\$9	\$21
\$3,000	1,267	501	76%	71%	\$2	\$6
\$3,150	900	586	95%	77%	\$4	\$5
\$3,200	527	0	100%	0%	\$6	\$3,200 <sup>2</sup>
\$3,200	747	28	63%	43%	\$4	\$114
\$3,500	48	13	100%	38%	\$73	\$269
\$3,500	1,369	1,289	32%	33%	\$3	\$3
\$3,583	1,177	501	14%	11%	\$3	\$7
\$3,800	181	124	7%	44%	\$21	\$31
\$4,900	518	433	15%	48%	\$9	\$11
\$4,922	701	690	70%	38%	\$7	\$7
\$5,000	174	171	41%	37%	\$29	\$29
\$5,000	968	68	10%	37%	\$5	\$74
\$5,400	1,032	496	47%	17%	\$5	\$11

<sup>1</sup> Averages have been rounded to the nearest dollar.

<sup>2</sup> We used total cost for one return as \$3,200 because IRS computers showed no returns were filed by this grantee.



*Oversight and Administration of the Tax Counseling for the Elderly Program Need Improvement*

Grant Amount	Number of Tax Returns Reported Per		Percentage of Tax Returns Prepared for Elderly Taxpayers Per		Return on Investment <sup>1</sup> Per	
	Forms 8654	IRS Computer System	Forms 8654	IRS Computer System	Forms 8654	IRS Computer System
\$5,500	979	745	36%	33%	\$6	\$7
\$6,239	429	174	100%	89%	\$15	\$36
\$6,340	669	616	69%	71%	\$9	\$10
\$6,400	286	206	82%	40%	\$22	\$31
\$6,500	1,710	804	100%	66%	\$4	\$8
\$7,000	654	595	100%	89%	\$11	\$12
\$7,000	666	511	42%	59%	\$11	\$14
\$7,000	1,199	487	70%	72%	\$6	\$14
\$7,200	1,636	1,394	15%	17%	\$4	\$5
\$7,500	22	16	27%	31%	\$341	\$469
\$7,500	658	358	61%	36%	\$11	\$21
\$7,500	1,403	803	37%	32%	\$5	\$9
\$7,900	217	118	100%	64%	\$36	\$67
\$8,000	448	426	98%	88%	\$18	\$19
\$9,500	1,023	999	19%	17%	\$9	\$10
\$9,800	3,734	2,640	40%	46%	\$3	\$4
\$10,800	1,552	11	50%	27%	\$7	\$982
\$11,000	1,011	812	82%	77%	\$11	\$14
\$13,000	723	262	75%	66%	\$18	\$50
\$13,000	3,512	1,243	53%	67%	\$4	\$10
\$15,865	745	616	46%	46%	\$21	\$26
\$16,500	864	390	17%	20%	\$19	\$42
\$22,000	1,229	1,088	17%	31%	\$18	\$20
\$26,000	2,502	2,221	100%	85%	\$10	\$12
\$29,500	1,898	1,642	44%	43%	\$16	\$18
\$30,000	1,794	1,586	33%	35%	\$17	\$19
\$33,140	1,195	875	57%	57%	\$28	\$38
\$40,000	6,380	5,499	66%	16%	\$6	\$7
\$46,000	2,800	1,773	80%	71%	\$16	\$26
<b>\$3,435,658</b>	<b>1,199,567</b>	<b>1,067,872</b>	<b>100%</b>	<b>62%</b>	<b>\$3</b>	<b>\$3</b>

*Source: Our analysis of TCE Program data and data retrieved from IRS management information systems containing Tax Year 2006 filing information.*



*Oversight and Administration of the Tax Counseling for the Elderly Program Need Improvement*

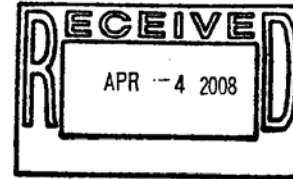
**Appendix VIII**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

APR 04 2008



MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. *Richard Byrd, Jr.*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Oversight and Administration of the  
Tax Counseling for the Elderly Program Need  
Improvement (Audit #200740041)

I reviewed your subject draft report and appreciate your acknowledgement of the significant role the IRS Volunteer Program plays in achieving the IRS goal of improving taxpayer service and facilitating participation in the tax system. I agree that the Tax Counseling for the Elderly (TCE) program plays an important role in the Volunteer Program, delivering free return preparation services to those taxpayers aged 60 and older. In FY 2007, 1.39 million returns were prepared in the TCE program, up from 1.14 million in FY 2006.

Since IRS places a premium on providing top quality service to the taxpaying public, the IRS requested this audit to determine if the TCE program was effectively managed and to also identify opportunities for improvement. I was particularly pleased that your recommendations, based on an examination of the FY 2006 process, mirrored our own findings when we assessed our administration of this program. Your findings also reinforce the value of the process changes we implemented for FY 2008. These changes, as confirmed by your recommendations, will prove beneficial for both the immediate and long-term administration of the TCE program.

We agree the most qualified applicants need to be selected to participate in the TCE Program. As such, our Stakeholder Partnerships, Education and Communication (SPEC) organization, which is responsible for overseeing the Volunteer Program, implemented a new process in 2007 that further strengthened the FY 2008 selection process. Our improvements included more specific evaluative ranking criteria and application of a weighted scoring factor. These enhancements provide recognition to applicants who deliver services in communities with a high percentage of elderly and maximize use of electronic return filing. While we are making significant improvement in



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*Oversight and Administration of the Tax Counseling for the Elderly Program Need Improvement*

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FY 2008, we will continue to assess the grant review and award process to identify additional opportunities for enhancements.

We agree that the IRS must ensure grant funds are expended appropriately and grantees are held accountable. Since employees in the SPEC TCE Grant Program Office did not have the experience/skills to conduct these reviews in FY 2007, SPEC worked closely with the IRS Tax Exempt and Government Entities (TE/GE) Division and conducted sample financial reviews on TCE grantees. The SPEC organization has since hired financial reviewers who will perform similar reviews for FY 2008 and beyond. We also agree there is a need to capture and maintain data specific to the TCE program. The IRS will enhance existing systems to monitor the program as well as use manual processes when needed. However, we believe your recommendation to measure the TCE program's success is already in place. We currently measure the Volume of Taxpayers Served, which is representative of the program's overall success. Other performance measures include Volunteer Production, Percent of Individual Returns Prepared Electronically, Volunteer Return Preparation Program Accuracy, Local Partner's Satisfaction/Dissatisfaction, National Partner Satisfaction/Dissatisfaction, and Taxpayer Contacts.

In regard to your outcome measures, while we acknowledge we had some internal control problems, we can not agree to the potential measurable benefits of \$3.9 million, which represents the entire amount of the TCE grant program in FY 2006. As noted in your report we have begun implementing several corrective actions to strengthen our financial oversight of the grant program and will continue to work with Health & Human Services, who manages the Payment Management System, to resolve account closings and over-advanced amounts.

Attached are our specific comments to your recommendations. If you have questions, please call me at (404) 338-7060 or members of your staff may contact Julie Garcia, Director, Stakeholder Partnerships, Education and Communication, at (404) 338-7104.

Attachment



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*Oversight and Administration of the Tax Counseling for the Elderly Program Need Improvement*

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Attachment

**RECOMMENDATION 1**

Establish a process and system of controls to ensure the most qualified applicants are selected for the TCE Program. The process and system of controls should (1) track applicants through application/award; (2) establish scoring, ranking, and selection criteria for grantees, including how the grant funds are to be allocated; (3) use historical performance data, when applicable, as a criterion during the selection process; and (4) document steps taken during the grant/award process. Internal manuals should be updated to reflect the process and controls.

**CORRECTIVE ACTION**

We agree with this recommendation and have made significant enhancements to our processes and controls.

(a) We established a scoring, ranking, and selection criteria for grantees that includes how the grant funds are allocated; and we used historical performance data in scoring the 2008 applicants. Our established scoring and ranking selection criteria for grantees includes the use of historical performance data.

(b) The SPEC Grant Program Office will document all actions taken during the year of the grant within each organization's case file using a history sheet that tracks applicants through the application and award process. We will continue to enhance this process further by tracking and documenting steps taken during the grant and award process and will ensure Internal Revenue Manual procedures accurately reflect these processes and controls. Finally, SPEC will update internal manuals to reflect the new process and controls.

**IMPLEMENTATION DATES**

- (a) Completed September 28, 2007
- (b) December 15, 2008

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 2**

Establish a process and system of controls to ensure grant funds are expended appropriately and grantees are held accountable.





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*Oversight and Administration of the Tax Counseling for the Elderly Program Need Improvement*

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**CORRECTIVE ACTION**

We agree and have already established a process and system of controls that ensures grant funds are expended appropriately and that grantees are held accountable. During FY 2007, financial reviews of the TCE Program were instituted to examine policies, procedures, and controls. These reviews allowed us to determine the adequacy of a particular grantee's ability to properly manage federal funds. Part of the financial review requires the reviewer to look at the receipts and expenditures related to the TCE Grant funds. Through engagement with other federal agencies and review of pertinent OMB Circulars, we developed TCE Financial Review Guidelines and an on-site checklist for use during the site review. However, we did not have employees in the SPEC TCE Grant Program Office with the experience/skills to conduct these reviews. Therefore, we collaborated with the TE/GE Division to review ten organizations that were sampled for the initial year. In October 2007, three individuals were hired by SPEC to conduct such financial reviews on an ongoing, annual basis. SPEC is using the Statistics of Income Office to select the TCE Grant recipients for review. These reviews will be conducted following the conclusion of the 2008 filing season.

**IMPLEMENTATION DATE**

April 15, 2009

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 3**

Revise Publication 1101 and Form 8654 to make it clear Form 8654 is to be used to report those expenses paid for or allocated to TCE Program grants.

**CORRECTIVE ACTION**

We agree with this recommendation. New processes were developed in 2007 to ensure consideration was given to whether sponsoring organizations were in compliance with administrative program requirements and allocation of funds. The SPEC TCE Grant Program Office is in the process of revising Publication 1101 and Form 8654 for use by 2009 TCE applicants. We have already initiated actions with the Department of Health and Human Services regarding the Payment Management System that will result in establishing standard procedures to reconcile and timely close TCE accounts and to prevent advanced payments above established limits.



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*Oversight and Administration of the Tax Counseling for the Elderly Program Need Improvement*

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**IMPLEMENTATION DATE**

July 15, 2008

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 4**

The Commissioner, Wage and Investment Division, should develop a management information system to oversee, control, and measure the TCE Program's activities and goals. The system should capture grantees' historical and current year information and include information about the grantee such as the number of sites and geographic dispersion; grantee awards requested, made, and spent; grant funds distributed and returned; grantee expectations and planned activity; grantee expenses related to the Program; and actual tax returns prepared by the grantee for all taxpayers and elderly taxpayers.

**CORRECTIVE ACTION**

We agree with this recommendation and the benefits of using a management information system to capture and retain data to measure program activities and effectiveness. However, to comply with the President's E-Gov Initiatives (M-04-08) created to avoid duplication of information systems; we will not be developing a new system. As a result, we will explore the use of a database used by the Low Income Tax Clinic Office for administering their grants as well as other existing databases for comparative analysis of capabilities and adaptation to fit our TCE program needs.

**IMPLEMENTATION DATE**

July 15, 2009

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 5**

The Commissioner, Wage and Investment Division, should establish performance measures to gauge the TCE Program's success in meeting its goals and objectives, including directing services to elderly taxpayers.



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*Oversight and Administration of the Tax Counseling for the Elderly Program Need Improvement*

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**CORRECTIVE ACTION**

We agree that performance measures are necessary to gauge the TCE Program's success in meeting its goals and objectives, including the goal of targeting elderly taxpayers. The TCE Program represents over half of the production volume in the Volunteer Program. We have an existing measure, *Volume of Taxpayers Served*, which is representative of the program's success. Moreover, a variety of other measures are outlined in our 2008 SPEC Business Plan and W&I Strategy and Program Plan. These measures include Volunteer Production, Percent of Individual Returns Prepared Electronically, Volunteer Return Preparation Program Accuracy, Local Partner Satisfaction/Dissatisfaction, National Partner Satisfaction/Dissatisfaction, and Taxpayer Contacts. The e-file and elderly components of our ranking criteria were enhanced this past year to provide emphasis to these elements in line with our operational priorities. We will continue to use our existing measures to gauge performance and expand our focus on targeting the elderly population to enhance program success.

**IMPLEMENTATION DATE:**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTIONS MONITORING PLAN**

N/A