



*Accuracy of Volunteer Tax Returns  
Continues to Improve, but Better Controls  
Are Needed to Ensure Consistent Application  
of Procedures and Processes*

**September 18, 2008**

**Reference Number: 2008-40-177**

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.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 18, 2008

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

**FROM:**

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

**SUBJECT:**

Final Audit Report – Accuracy of Volunteer Tax Returns Continues to Improve, but Better Controls Are Needed to Ensure Consistent Application of Procedures and Processes (Audit # 200840010)

This report presents the results of our review to determine whether taxpayers receive quality service, including the accurate preparation of their income tax returns, when visiting Internal Revenue Service (IRS) Volunteer Program<sup>1</sup> sites. We also determined whether the IRS makes adequate efforts to ensure the integrity of the volunteers participating in the Volunteer Program. This audit is a followup to prior Treasury Inspector General for Tax Administration reviews and is part of our Fiscal Year 2008 Annual Audit Plan.<sup>2</sup>

*Impact on the Taxpayer*

The Volunteer Program plays an increasingly important role in achieving the IRS' goal of improving taxpayer service and facilitating participation in the tax system. It provides no-cost Federal tax return preparation and electronic filing directed toward underserved segments of individual taxpayers, including low-income to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. Although accuracy rates for tax returns prepared by volunteers have increased from those in prior years, the quality assurance process is still not consistently followed. Incorrectly prepared tax returns can increase the risk of taxpayers receiving erroneous tax refunds by not receiving credits to which they are entitled or receiving additional credits for which they do not qualify.

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<sup>1</sup> Includes the Volunteer Income Tax Assistance and Tax Counseling for the Elderly Programs. During this review, the Tax Counseling for the Elderly sites we visited were those sponsored by the AARP (formerly the American Association of Retired Persons).

<sup>2</sup> See Appendix VIII for a list of these prior reports.



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Synopsis

Our reviews over the last five filing seasons<sup>3</sup> have determined that accuracy rates for tax returns prepared at Volunteer Program sites have continued to increase and improvements have been made to the oversight of the Volunteer Program. However, to ensure sustained success in the Volunteer Program, the IRS must continue to focus on improving the quality of the tax return preparation process.

Of the 36 tax returns prepared for our auditors by Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites in the 2008 Filing Season, 11 (31 percent) were prepared incorrectly. If 9 of these incorrectly prepared tax returns had been filed, taxpayers would not have received almost \$4,700 in tax refunds to which they were entitled. Alternatively, if the remaining 2 incorrectly prepared tax returns had been filed, the IRS would have incorrectly refunded almost \$6,000.

***Accuracy rates of tax returns prepared for our auditors increased from 0 percent in the 2004 Filing Season to 69 percent in the 2008 Filing Season.***

Since the 2004 Filing Season, we have reported that volunteers are not following required procedures designed to assist in the accurate preparation of tax returns. During the 2008 Filing Season, some volunteers did not consistently use the required intake and interview process or perform a quality review to ensure that an accurate tax return was prepared.

For the 11 tax returns incorrectly prepared, 1 or more requirements were not followed. For example:

- For 1 return (9 percent), the volunteer did not use an intake sheet when preparing the tax return.
- For 3 returns (27 percent), the volunteers did not correctly prepare the intake sheet.
- For 3 returns (27 percent), the sites had no quality review process.
- For 3 returns (27 percent) that were quality reviewed, the volunteers did not use a quality review checklist.

Improvements are also needed to the Return Reviews used to monitor Program effectiveness. Return Reviews are unannounced IRS visits to volunteer sites to evaluate tax law and tax return accuracy. Test results showed that quality review procedures were not consistently followed from site to site. In addition, our review of 91 Return Review cases showed that 43 (47 percent) had missing or illegible documents. Therefore, we could not validate the accuracy of those tax

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



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returns. In addition, of the 91 cases sampled, only 19 (21 percent) included the most recent version of the Quality Return Review Sheet (Form 6729C).

The Stakeholder Partnerships, Education, and Communication (SPEC) function continues to show a commitment to improving the Volunteer Program return preparation process to ensure the accurate preparation of tax returns. Accurate tax return preparation establishes credibility and validates the integrity of the Program and its volunteers. The IRS also has application processes and procedures in place to ensure that volunteer applicants meet certain criteria and are trained. However, these steps and processes do not ensure the integrity of volunteers, even though the volunteers have access to taxpayers' personal identifiable information such as Social Security Numbers, driver licenses, and home addresses.

Finally, some volunteer sites offer Refund Anticipation Loans (RAL or Loan).<sup>4</sup> However, little oversight for these Loans is offered through the Volunteer Program. The IRS could not provide the number of Volunteer Program sites or a list of sites that offer RALs. In addition, the Program volunteers cannot input RAL indicators on taxpayer accounts for those who applied or obtained the Loans, which is a requirement for commercial tax preparation companies.

### *Recommendations*

We recommended that the Commissioner, Wage and Investment Division, 1) require that the Return Review process be well documented so that external reviews can be conducted and results can be measured, 2) ensure that all Volunteer Agreement Standards of Conduct – VITA/TCE<sup>5</sup> Programs (Form 13615) are signed and dated by volunteers prior to the start of their service, and 3) revise Form 13615 to include a question to determine whether the applicant has been convicted of a crime, have the applicant sign the Form under the penalty of perjury, and conduct a study to evaluate the applicability and feasibility of standards used by other volunteer organizations.

We also recommended that the Commissioner, Wage and Investment Division, 4) include a requirement in the Volunteer Program Sponsor Agreement (Form 13533) that applicants document whether they will be offering RALs, including details of the Loans offered, 5) ensure that volunteers are able to input the RAL indicator when transmitting the tax returns to the IRS and that the indicator is included on the management information system used to control the Volunteer Program, and 6) include a review of RALs in site visits to ensure that the Loans are being offered and filed consistently with written guidance issued by the IRS.

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<sup>4</sup> RALs are short-term loans provided to taxpayers in anticipation of their current year Federal income tax refunds. The IRS stated that the RALs offered by Volunteer Program partners are lower in fees and interest than RALs offered through commercial tax preparation services.

<sup>5</sup> VITA – Volunteer Income Tax Assistance. TCE – Tax Counseling for the Elderly.



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*Response*

IRS management agreed with four of our six recommendations, partially agreed with one (Recommendation 3), and disagreed with one (Recommendation 5). Concerning the six recommendations:

- 1) The SPEC function will implement a Centralized Return Review Cadre during the 2009 Filing Season to ensure that consistent quality reviews are performed and will implement procedures to ensure that the Return Review process is well documented.
- 2) The SPEC function will place appropriate emphasis on volunteers signing and dating Form 13615 prior to the start of their service.
- 3) The SPEC function will not immediately revise Form 13615. However, it will discuss this issue with its partners (volunteer organizations) because the volunteers supporting Volunteer Income Tax Assistance and Tax Counseling for the Elderly Programs work for them and not directly for the IRS.
- 4) The SPEC function will add a question to Form 13533 to identify other products and services being offered by volunteer sites and will obtain this information from new sites when they complete a Form 13533. It will include a similar question in the site review process with respect to existing partners. If RALs are offered, the SPEC function will request information from the partner regarding the fees, interest rate charged, financial institution(s) involved, and marketing products/strategies.
- 5) The IRS did not agree with the recommendation, stating that if the SPEC function turned on the RAL indicator in the commercial software used by volunteers to prepare tax returns, the downstream impact to partners and their established processes might be negative. The IRS software contract would have to be modified because activation of the RAL indicator is precluded by the current contract. Activating the RAL indicator would result in additional costs. All of these factors must be thoroughly investigated and analyzed and any risks must be identified before the IRS can determine whether this action will provide the desired results. However, the SPEC function will request changes to its management information system to add a field that can be used to identify sites offering RALs.
- 6) The IRS agreed that it should monitor preparers, including volunteer preparers, offering RALs or similar bank products to ensure their compliance with IRS regulations and procedures. However, it believes that this should be accomplished within the parameters of existing oversight programs in its Small Business/Self-Employed Division.

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



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*Office of Audit Comment*

IRS management disagreed with Recommendation 5 that the SPEC function should ensure that volunteers are able to input the RAL indicator, citing a variety of procedural and other issues. We agree that the IRS needs to consider the additional costs and investigate further before making a final determination. However, the IRS currently cannot determine which sites offer RALs or the number of--and/or which-- taxpayers visit volunteer sites to obtain RALs. This is necessary to determine the effect of RALs on the Volunteer Program and to ensure that all procedures and regulations are followed.

Although the IRS agreed with Recommendation 6, it stated that overseeing the volunteers offering RALs would be accomplished within the parameters of an existing program in the Small Business/Self-Employed Division. We will follow up on this action during the 2009 Filing Season audit of the Volunteer Program.

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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## *Abbreviations*

<i>e-file, e-filing</i>	Electronic Filing
IRS	Internal Revenue Service
RAL	Refund Anticipation Loan
SPEC	Stakeholder Partnerships, Education, and Communication
TCE	Tax Counseling for the Elderly
VITA	Volunteer Income Tax Assistance



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## *Background*

The Internal Revenue Service (IRS) Volunteer Income Tax Assistance (VITA) Program was originated in 1969 due to enactment of the Tax Reform Act of 1969<sup>1</sup> and an increased emphasis on taxpayer education programs. The IRS has placed continual emphasis on expanding the VITA Program through increased recruitment of social service, nonprofit, corporate, financial, educational, and government organizations; involvement of the military on a national level; and expansion of assistance provided to the limited-English-proficient community.

The Tax Counseling for the Elderly (TCE) Program provides free tax help to people age 60 and older. The Revenue Act of 1978<sup>2</sup> authorized the IRS to 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 an appropriation of special funds, in the form of grants, to provide tax assistance to persons age 60 and older. The IRS receives the funds as a line item in the budget appropriation. The total funds are distributed to the sponsors<sup>3</sup> for their expenses.

***Accurately prepared tax  
returns establish  
credibility in and the  
integrity of the Volunteer  
Program.***

The IRS Volunteer Program includes VITA sites operated in partnership with the military and with various community-based organizations,<sup>4</sup> as well as sites operated by the TCE Program and the AARP. The IRS Stakeholder Partnerships, Education, and Communication (SPEC) function is responsible for providing oversight for the Volunteer Program, which includes determining policies and procedures, developing products and training material, and monitoring and managing Volunteer Program activity. The SPEC function's concept of operations includes looking for opportunities to assist third parties to help taxpayers understand and meet their tax obligations by promoting collaboration among tax practitioners, commercial preparers, and community-based partners to support the volunteer return preparation program.

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<sup>1</sup> Pub. L. No. 91-172, 83 Stat. 487 (codified as amended in scattered sections of 26 U.S.C. and 42 U.S.C.).

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

<sup>3</sup> A sponsor would be an entity similar to the AARP (formerly the American Association of Retired Persons).

<sup>4</sup> Some community-based VITA sites are located in buildings occupied by one or more IRS offices.



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This audit included an assessment of tax returns prepared at community-based VITA sites and TCE sites sponsored by the AARP. During the 2007 Filing Season,<sup>5</sup> these sites were involved in the preparation of 2,117,801<sup>6</sup> tax returns. Figure 1 provides a breakdown of the Volunteer Program and the volumes of tax returns prepared during the 2007 Filing Season.

**Figure 1: Tax Year 2006 Tax Returns Prepared  
by the Volunteer Program**

Type of Volunteer Program	Volume of Tax Returns Prepared	Percentage
VITA	807,793	32.84%
Military VITA	267,976	10.90%
Colocated VITA*	26,168	1.06%
TCE (Non-AARP)	50,821	2.07%
TCE (AARP)	1,283,840	52.19%
Other**	23,153	0.94%
<b>Totals:</b>	<b>2,459,751</b>	<b>100.00%</b>

*Source: Our analysis of data retrieved from the IRS management information system containing Tax Year 2006 filing information. We validated these data by accessing selected taxpayer accounts.*

*\* = Community-based VITA sites that are located in buildings occupied by one or more IRS offices.*

*\*\* = At the time of our data analysis, some data had invalid site codes that were categorized as "Other."*

The Volunteer Program plays an increasingly important role in achieving the IRS' goal of improving taxpayer service and facilitating participation in the tax system. It provides no-cost Federal tax return preparation and electronic filing (*e-filing*) directed toward underserved segments of individual taxpayers, including low-income to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. These taxpayers frequently are involved in complex family situations that make it difficult to correctly understand and apply the tax law.

In addition, some of the volunteer sites offer Refund Anticipation Loans (RAL or Loan) as a low-cost alternative to traditional RALs. A RAL is a short-term loan provided to a taxpayer in anticipation of his or her current year Federal income tax refund. It is a contract between the taxpayer and a lender, and the IRS is not involved in this contract. The IRS stated that the Loans offered by Volunteer Program partners are lower in fees and interest than those offered through commercial tax preparation services.

<sup>5</sup> The 2007 Filing Season relates to the processing of Tax Year 2006 tax returns. The filing season is the period from January through mid-April when most individual income tax returns are filed.

<sup>6</sup> Total of 833,961 completed at community-based VITA sites and 1,283,840 completed at AARP-sponsored sites.



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The IRS is establishing a Community VITA Grant Program that will provide direct funds to enable the IRS to extend its Volunteer Program and services to underserved populations and hardest-to-reach areas, along with increasing the capacity to file returns electronically, heighten quality control, enhance volunteer training, and continue to improve the accuracy rate of returns prepared by VITA Program sites. The Community VITA Grant Program will allow the IRS to further expand the Volunteer Program while continuing its focus on improving tax return accuracy. The Volunteer Program's growth and success demonstrate both community commitment to providing services to the underserved and the tremendous need for such services.

**Tax scenarios used by auditors reflected characteristics of taxpayers who seek assistance from the Volunteer Program**

To ensure that the 2 tax scenarios used in this review reflected the characteristics of taxpayers who seek assistance from the Volunteer Program, we developed the scenarios based on tax filing characteristics of the 1,260,624 individuals who used community-based VITA sites and those under age 60 who used AARP sites to have their Tax Year 2006 tax returns prepared. These taxpayers had average earnings of \$17,856.31 (community-based VITA sites) and \$22,080.96 (AARP-sponsored sites). Appendix IV provides additional key characteristics of these individuals.

Further, we designed the scenarios to include tax law topics that assessed the volunteers' use of the tools the SPEC function had created to ensure that accurate tax returns are prepared. The two scenarios together included tax topics related to five of the six credits taxpayers most often claimed on the Tax Year 2006 returns prepared by community-based VITA and AARP-sponsored sites. The dollar amount of these 5 credits represented more than 57 percent (approximately \$855 million) of the \$1.5 billion in refunds shown on the tax returns for these taxpayers. Taxpayers whose tax returns include 1 or more of the 5 credits in our scenarios accounted for 811,094 (38 percent) of the 2,117,801 tax returns prepared, based on our analysis of all Tax Year 2006 volunteer-prepared tax returns. The two scenarios developed for this review were:

**Scenario 1** – The taxpayer was divorced and lived with his or her 8-year-old child. The taxpayer had the same job working as a clerk throughout 2007. Wages reported on the Wage and Tax Statement (Form W-2) totaled \$28,732. The taxpayer was paid bi-weekly and contributed to a 401(k) retirement plan. The taxpayer received a statement of Interest Income (Form 1099-INT) totaling \$42.13, received \$400 a month for child support, had dependent care expenses totaling \$1,352, and contributed \$1,253 to a 401(k) retirement plan.

An accurately prepared tax return would result in the taxpayer receiving a refund of \$2,218. The tax return preparer would have correctly determined that the taxpayer's filing status was Head of Household and the dependency exemption could be claimed. In addition, the taxpayer qualified for an Earned Income Tax Credit of \$714, a Child Tax Credit of \$1,000, a Child and Dependent Care Credit of \$379, and a Retirement Savings Contributions Credit of \$125.



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**Scenario 2** – The taxpayer was single, had never been married, and lived with his or her sister. The taxpayer had two children, ages 7 and 9, who lived with the taxpayer in the home of the taxpayer's sister during school vacations, including the months of June, July, and August (summer). The children lived with the other parent during the school year. The taxpayer worked a part-time evening job as a clerk and was paid \$16,435. The taxpayer's sister earned \$48,000 in 2007. The taxpayer received a Form 1099-INT totaling \$26.35. The taxpayer attended college part time, and the cost was paid by the taxpayer's sister.

An accurately prepared tax return would result in the taxpayer receiving a refund of \$98. The preparer would have correctly determined that the taxpayer's filing status was Single. Because the taxpayer did not provide more than one-half of the support for the children, he or she could not claim the children as dependents for Child Tax Credit purposes. The Earned Income Tax Credit would not be available to the taxpayer because earned income exceeded the maximum allowable amount and because the children did not live with the taxpayer for more than one-half of the year.

This review was performed at the IRS Customer Assistance, Relationships, and Education function in the Wage and Investment Division Headquarters in Atlanta, Georgia, during the period December 2007 through May 2008. In addition, from February through April 2008, Treasury Inspector General for Tax Administration auditors performed 36 anonymous visits (called shopping) and had 36 tax returns<sup>7</sup> prepared at 36 judgmentally selected Volunteer Program sites located in 12 States. Appendix V provides a list of the 12 States and the specific cities where the sites were located. 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>7</sup> Of the 36 tax returns, 12 were prepared at AARP-sponsored sites and 24 were prepared at community-based VITA sites.



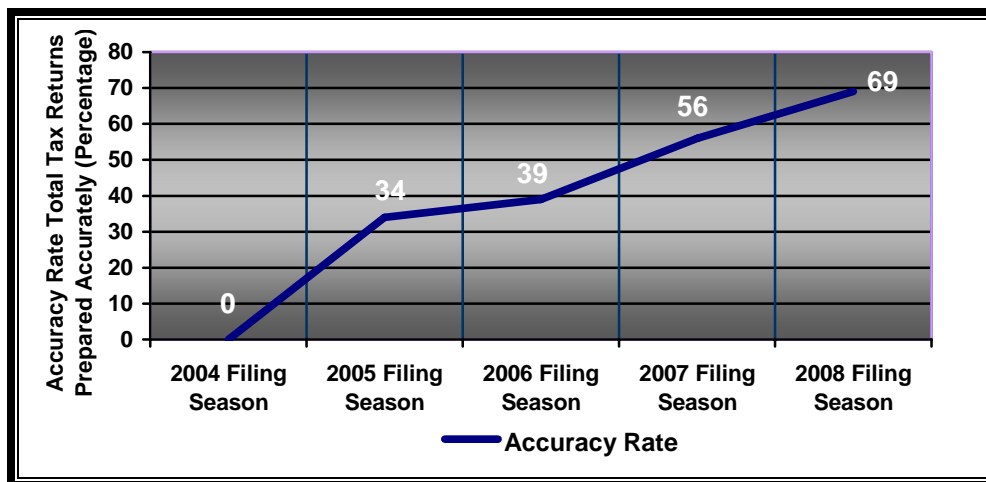
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*Results of Review*

**Accuracy Rates Have Increased Significantly; However, the Quality Assurance Process Is Still Not Consistently Followed**

Accuracy rates for tax returns prepared at Volunteer Program sites have continued to increase over the last five filing seasons.<sup>8</sup> Figure 2 shows that accuracy rates of tax returns prepared for our auditors have increased from 0 percent in the 2004 Filing Season to 69 percent in the 2008 Filing Season.

**Figure 2: Overall Tax Return Accuracy Rates for the 2004-2008 Filing Seasons**



Source: Tax returns prepared for our auditors by volunteers for the 2004-2008 Filing Seasons.

Since the 2004 Filing Season, we have reported that VITA site volunteers are not following required procedures designed to assist in the accurate preparation of tax returns. During the 2008 Filing Season, some volunteers did not consistently use the required intake and interview process, including completion of the IRS Intake and Interview Sheet (Form 13614) or another IRS-approved intake sheet, or perform a quality review to ensure that an accurate tax return was prepared.

Of the 36 tax returns we had prepared for the 2008 Filing Season, 11 (31 percent) were prepared incorrectly (69 percent accuracy rate). If 9 of these incorrectly prepared tax returns had been filed, taxpayers would not have received almost \$4,700 in tax refunds to which they were

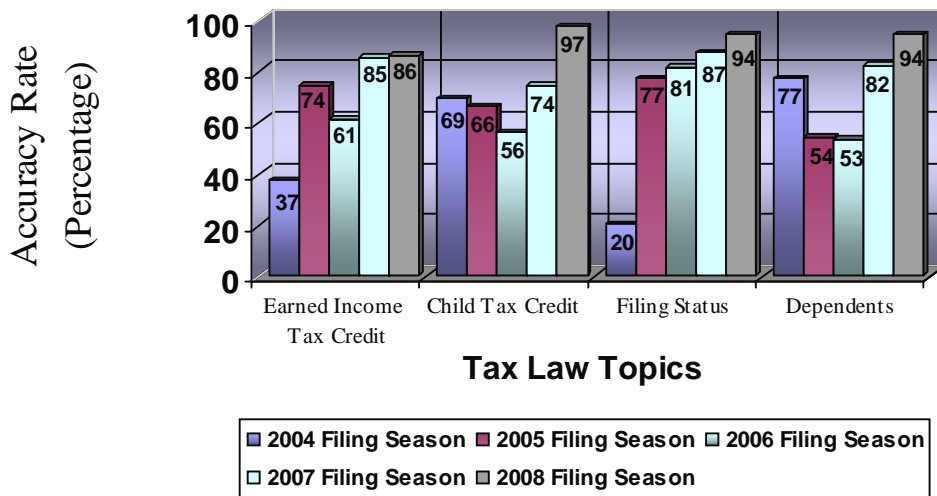
<sup>8</sup> Prior audits included only community-based VITA sites.



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entitled. Specific credits not received included the Child Tax Credit, Additional Child Tax Credit, Child and Dependent Care Credit, Earned Income Tax Credit, and Retirement Savings Contributions Credit. Alternatively, if the remaining 2 incorrectly prepared tax returns had been filed, the IRS would have refunded almost \$6,000 incorrectly. Overstated refunds resulted from taxpayers incorrectly receiving the Child Tax Credit and Additional Child Tax Credit, dependency exemption, Child and Dependent Care Credit, and/or Earned Income Tax Credit.<sup>9</sup> Figure 3 shows a 5-year trend analysis of tax law accuracy at Volunteer Program sites for the tax law topics included in our 2 scenarios.

**Figure 3: Comparison of Tax Law Accuracy Rates for the 2004-2008 Filing Seasons<sup>10</sup>**



*Source: Tax returns prepared for our auditors by volunteers during the 2004-2008 Filing Seasons.*

Furthermore, the IRS conducts its own shopping reviews. During the 2008 Filing Season, the IRS performed 85 shopping reviews that showed 64 (75 percent) tax returns were prepared accurately.

**The SPEC function has continued to improve its oversight of the Volunteer Program**

Accuracy rates have improved significantly with the continued and consistent application of the Volunteer Return Preparation Program-Quality Improvement Process. The SPEC function made

<sup>9</sup> Appendix VI presents details of these results. Appendix VII presents results by tax scenario.

<sup>10</sup> Only tax law topics included in prior followup reviews and this review are included in this comparison (see Appendix VII for a complete list of tax topics addressed in this review).





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significant improvements to the Volunteer Program for the 2008 Filing Season. It removed the word “minimum” from the Quality Site Requirements because there is no minimum in quality. The Quality Site Requirements include key aspects of the intake and interview process, reference materials, and quality review process. For example, all sites must:

- Use an intake and interview process that includes correctly using an IRS-approved intake and interview sheet for every tax return prepared.
- Have *Volunteer Resource Guide* (Publication 4012) and *Your Federal Income Tax* (Publication 17) available for use by every volunteer return preparer and quality reviewer.
- Use a quality review process, which includes a 100 percent review of all returns. This process must include the use of an approved quality review checksheet for every tax return.

The IRS continues its commitment to providing top-quality service to all taxpayers who visit Volunteer Program sites, especially low-income to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. Partner organizations and their volunteers are the most valuable resources within the IRS tax return preparation program. The Quality Site Requirements were developed to ensure that VITA and TCE Program sites have a consistent operation in each site. The SPEC function is responsible for providing partners, volunteer site coordinators, and volunteers with the tools and support necessary to comply with each quality requirement. The quality focus is on improving the return preparation process to result in accurate returns. This commitment to accurate return preparation establishes credibility and validates the integrity of the Program and its volunteers.

***Some volunteers are still not adhering to required procedures for the accurate preparation of all tax returns***

Although our shopping accuracy rate increased significantly from those in prior years, some volunteers are not following all Quality Site Requirements. For each of the 11 tax returns prepared incorrectly, 1 or more elements of the Requirements were not followed. For example:

- For 1 tax return (9 percent), the volunteer did not use an intake sheet when preparing the tax return.
- For 3 tax returns (27 percent), the volunteers did not correctly prepare the intake sheet.
- For 3 tax returns (27 percent), the sites had no quality review process.

***In the Volunteer Program, an accurate return is the most important aspect of providing quality service to the taxpayer.***





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- For 3 tax returns (27 percent) that were quality reviewed, the volunteers did not use a quality review checklist.

Quality service and accurate return preparation start with the volunteer asking the taxpayer the right questions. Form 13614 assists the volunteer by ensuring that the right questions are asked during the interview with the taxpayer. All volunteers must complete and use Form 13614 to prepare each tax return. All quality reviewers must use the Form with the supporting documents during the quality review. The intake and interview process must include the following at a minimum:

- An interview with the taxpayer that includes explaining the tax return preparation process and encouraging him or her to ask questions throughout the interview process.
- Completion of Form 13614 or an IRS-approved, partner-developed form asking the questions listed on Form 13614 or similar questions that will provide the same information.
- Confirmation of the taxpayer's responses provided on the Form 13614 (or similar form).
- Use of probing questions to ensure that complete information is gathered.
- Review of all supporting documentation and confirmation with the taxpayer that all income was discussed and noted on the Form 13614 to ensure that it will be included on the tax return.

The purpose of the quality review is to ensure that the taxpayer's tax return is accurate based on the supporting documents provided by the taxpayer and the intake and interview sheet. One of the Quality Site Requirements is to have a quality review process in place and ensure that it is being used at every site on every return. A quality review process includes:

- The taxpayer's participation.
- Completion of a standardized quality review checklist, either the Quality Review Sheet [Form 8158 (EN/SP)] or an IRS-approved, partner-developed quality review checklist containing the same information as that listed on Form 8158 (EN/SP).
- Use of the available supporting documents to confirm identity, income, expenses, and credits on the tax return.

A tax return is accurate when the tax law is applied correctly and the return is free from error based on the taxpayer interview and all supporting documentation. If a Volunteer Program site is not in compliance with a particular aspect of the Quality Site Requirements, the SPEC function's primary goal is to work with the partner and the site to assist them in becoming compliant as soon as possible. Any remedy offered should provide the assistance and support necessary to bring the site into compliance with the Quality Site Requirements. This might include



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discussions, counseling, and/or mentoring assistance with the site within a reasonable period. Withdrawing IRS support from a site should be the last resort.<sup>11</sup>

During this audit, we provided SPEC function management with observations from our anonymous visits, including specific examples of noncompliance with Quality Site Requirements. Based on our feedback, SPEC function management contacted representatives from the sites to discuss the issues and requested that corrective actions be taken. They also completed followup actions by elevating the issues to be addressed with the partners.

Site coordinators are volunteers who provide coordination, organization, and supervision for all aspects of a Volunteer Program site. They play a critical role in the quality at the individual sites. They also greatly influence whether volunteers follow and implement the Quality Site Requirements. Information provided to us during discussions with site coordinators and volunteers associated with the sites that did not perform a quality review or use a quality review checksheet included the following: 1) the site discontinued using the checksheet during the filing season, 2) the volunteers know what information to review when performing a quality review so a quality review checksheet is not needed, or 3) the site eliminated the entire quality review process due to a staff shortage.

**The SPEC function also conducted 85 shopping visits during the 2008 Filing Season as part of its quality review program**

The SPEC function results confirm that some Volunteer Program sites are not consistently complying with the Quality Site Requirements. Observations from these shopping visits showed that:

- 15 percent of the sites did not use the required intake and interview sheet during tax return preparation.
- 65 percent of the sites did not use the required quality review process.

In addition, 12 (33 percent) of the 36 sites we visited did not prepare an intake and interview sheet correctly, and 3 (8 percent) did not prepare one at all. Eleven (31 percent) did not perform the required quality review on the prepared tax returns.<sup>12</sup>

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<sup>11</sup> IRS support includes software, computers, printers, financial assistance, grants, and VITA and TCE Program logo references.

<sup>12</sup> A tax return could be prepared incorrectly though the preparer followed all quality assurance rules. Conversely, a tax return could be prepared correctly though none of the quality assurance rules were followed.



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Incorrectly prepared tax returns can increase the risk of taxpayers not receiving credits to which they are entitled or receiving additional credits for which they do not qualify. This might also create additional burden on taxpayers if the IRS later finds potential errors on the tax returns and requires the taxpayers to face the demands of IRS audits.

Because we have already reported in prior audit reports that volunteers do not consistently use the tools to ensure that all tax returns are prepared accurately, and the accuracy rate is improving, we are making no recommendations at this time. We will continue to monitor the IRS' efforts during next year's review.

### ***Improvements Are Needed to the Return Reviews Used to Monitor Program Effectiveness***

Limited testing at six selected volunteer sites showed that quality review procedures were not consistently followed. Some sites did not use quality review checksheets, did not include economic stimulus payment<sup>13</sup> tax returns for review, and did not verify taxpayer identification.

Return Reviews are unannounced visits to volunteer sites to evaluate tax law and tax return accuracy. During a Return Review, IRS employees randomly select for review three tax returns from those that have gone through the site's preparation and quality review process but have not yet been signed by the customers. The IRS reviewer uses the Quality Return Review Sheet (Form 6729C) to check the prepared tax return for accuracy with the completed intake and interview sheet, the customer's supporting documentation, and the completed quality review checksheet.

The SPEC function conducted a statistical sample of 963 Return Reviews during the 2008 Filing Season and determined that 931 (97 percent) tax returns were correct. Of the 963 returns, 59 percent had been subject to a quality review process, and 95 percent included an intake and interview sheet.

Due to an ongoing National Treasury Employees Union issue, reviewers were unable to use scanners to obtain documentation for case files. However, our review of a sample of 91 Return Review cases for which documentation was photocopied as part of the review process showed that 43 cases (47 percent) had missing or illegible documents. Therefore, we could not validate the accuracy of those returns. In addition, of the 91 cases sampled, only 19 (21 percent) included the most recent version of Form 6729C (dated September 2007).

Without complete documentation, we could not determine the quality of the Return Reviews. The importance of obtaining documentation during Return Reviews needs to be emphasized so

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<sup>13</sup> The Economic Stimulus Act of 2008 (Pub. L. No. 110-185, 122 Stat. 613) was passed to provide economic stimulus through recovery rebates to individuals, incentives for business investment, and an increase in conforming and Federal Housing Authority loan limits.



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that independent, third-party reviews can be conducted to ensure that procedures are consistently followed.

### **Recommendation**

**Recommendation 1:** The Commissioner, Wage and Investment Division, should require that the Return Review process be well documented, including using and retaining a review checklist, so that external reviews can be conducted and results can be measured.

**Management's Response:** IRS management agreed with this recommendation. The SPEC function will implement a Centralized Return Review Cadre during the 2009 Filing Season. To ensure that consistent quality reviews are performed, the Cadre will consist of 25 employees specifically trained to perform Return Reviews. Procedures will be implemented to ensure that the Return Review process is well documented. The IRS will capture and retain Return Review documentation for subsequent external review by scanning and electronically storing all documents pertinent to the Review.

### **Current Procedures Need to Be Strengthened to Ensure the Integrity of the Volunteers**

The SPEC function continues to show a commitment to improving the Volunteer Program return preparation process to ensure the accurate preparation of tax returns. Accurate tax return preparation establishes credibility and validates the integrity of the Program and its volunteers. The IRS also has application processes and procedures in place to ensure that volunteer applicants meet certain criteria and are trained.

However, these steps and processes do not ensure the integrity of volunteers, even though the volunteers have access to taxpayers' personal identifiable information such as Social Security Numbers, driver licenses, and home addresses. The Social Security Number is the most widely used identifier for Federal and State Governments and the private sector. It is used for employment in the United States; to maintain a bank account or obtain credit; to receive Social Security Administration and other Federal Government benefits; and, for most individuals, to file a tax return. Because volunteers have access to taxpayer information, there is a potential risk of identity theft.

In comparison to other organizations that require potential volunteers to be subject to a background check, the IRS does not require its applicants to undergo a background check. The IRS requires the following to ensure the integrity of its volunteers:

- *Privacy and Confidentiality-A Public Trust* (Publication 4299). This Publication serves as the central document for providing guidance covering the privacy, confidentiality, and security of all information received at VITA/TCE Program sites.



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- Sponsor Agreement (Form 13533). Sponsors must sign Form 13533. New Forms are requested from existing partners (or sponsors) when significant changes are made to Publication 4299. The SPEC function should also obtain a new Form 13533 when key personnel changes occur to ensure that the new individual is aware of the agreement in place.
- Volunteer Agreement Standards of Conduct – VITA/TCE Programs (Form 13615). Volunteers must annually sign Form 13615 before their volunteer service begins. These Forms are used to acknowledge receipt of and/or agreement to maintaining key principles concerning the privacy and confidentiality of the VITA and TCE Programs.
- *Application Package and Guidelines for Managing a TCE Program* (Publication 1101). This package contains current TCE Program guidelines. An applicant has to submit a Proposed Program Plan, which should include the steps that will be taken to ensure taxpayer privacy and to maintain the confidentiality of tax returns. In addition to signing the Form 13615, an applicant must sign various additional forms to indicate that he or she is taking all reasonable steps necessary to ensure that information provided by taxpayers remains confidential.

We obtained and reviewed a sample of 30 Forms 13533. Results showed that all 30 Forms were appropriately signed. In addition, review of a sample of 30 volunteer sites with a total of 181 volunteers showed that only 2 volunteers (1 percent) did not sign Form 13615. Review of a sample of 21 Proposed Program Plans for TCE Non-AARP volunteer sites showed that all 21 Plans contained the required narrative to ensure taxpayer privacy and confidentiality and were appropriately dated by the sponsors.

Of the 179 volunteer agreements that were signed, 28 (16 percent) did not contain a signature date or a legible date that we could verify. Because volunteers must sign Form 13615 before they begin their volunteer service, we could not determine if this requirement was met with Forms that had no dates.

Obtaining a signature on the current sponsor and volunteer agreements might not be sufficient to ensure a volunteer's integrity. In comparison, potential applicants for the IRS *e-file* Program<sup>14</sup> are asked to sign the IRS Application to Participate in the IRS *e-file* Program (Form 8633), which asks applicants if they have ever been convicted of a crime, failed to file personal tax returns or pay tax liabilities, or been convicted of any criminal offense under the internal revenue laws. If an applicant provides a "yes" response, he or she must attach an explanation to the Form 8633. The applicant also signs the Form 8633 under penalty of perjury.

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<sup>14</sup> The IRS *e-file* Program offers taxpayers an alternative to filing a traditional paper tax return. The *e-file* Program enables taxpayers to send their tax returns to the IRS in an electronic format via an authorized IRS *e-file* Provider.



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## **Recommendations**

The Commissioner, Wage and Investment Division, should:

**Recommendation 2:** Ensure that all Forms 13615 are signed and dated by volunteers prior to the start of their service.

**Management's Response:** IRS management agreed with this recommendation. The SPEC function will place appropriate emphasis on volunteers signing and dating Form 13615 prior to the start of their service. In addition, this item will be a subject of discussion during the SPEC function's Filing Season Readiness Training.

**Recommendation 3:** For the short term, revise Form 13615 to include a question to determine whether the applicant has been convicted of a crime and have the applicant sign the Form under penalty of perjury. For the long term, the Commissioner should conduct a study to evaluate the applicability and feasibility of standards used by other volunteer organizations.

**Management's Response:** IRS management agreed, in part, with this recommendation. As stated in the report, revising Form 13615 to include a question to determine whether an applicant has been convicted of a crime might not ensure volunteer integrity. The SPEC function will not immediately revise Form 13615. However, it will discuss this issue with its partners because the volunteers work for them and not directly for the IRS. The IRS will conduct a study with its partners to determine and evaluate the impact of adding this additional question to Form 13615 and associated requirements of such a disclosure. As part of this study, the IRS will work with us to provide any analysis or research performed in making this recommendation.

## ***Some Volunteer Program Sites Offer Refund Anticipation Loans to Taxpayers***

A RAL is a short-term loan secured by a taxpayer's expected tax refund. While some Volunteer Program sites offer RALs to taxpayers, IRS oversight in this area is insufficient. The SPEC function could not provide the number of Volunteer Program sites or a list of sites that offer RALs. In addition, the VITA Program volunteers cannot input RAL indicators on taxpayer accounts for those who applied for or obtained them when *e-filing* the tax returns. When a taxpayer pays a preparer to complete and file a tax return, the IRS requires the preparer to input a RAL indicator on the account before *e-filing* the tax return with the IRS.

The IRS stated that the Loans offered by Volunteer Sites are significantly lower in fees and interest and are intended to be an alternative to the higher costs of a traditional RAL. SPEC function management explained that many of their partner organizations have pooled resources to form more than 300 Community-Based Coalitions. As an adjunct to free return preparation, Coalitions often engage financial institutions in their partnerships to provide





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checking accounts or loans to taxpayers who need them. Some partners and Coalitions have extended these services to provide financial literacy and application assistance with other Federal or State Government programs. IRS partners are realistic about the marketplace and have developed options, including alternative RALs, to meet taxpayer needs and expectations.

Further, while the SPEC function does not endorse or market RALs, it acknowledges the options being offered to its customers. While partners strongly encourage taxpayers to wait for the normal 7-day to 10-day processing period for *e-filing* and direct deposit, they are ready to offer alternative products to meet the needs of customers with critical financial needs. This additional option, which is rarely used due to significant education efforts by the partners, provides a low-cost alternative to possibly being “victimized” by the traditional for-profit marketplace.

Although the Loan is a contract between the taxpayer and a lender, and the IRS is not involved in this contract, the IRS does monitor Electronic Return Originators<sup>15</sup> for their RAL marketing practices. However, there is currently no monitoring of volunteers who provide these Loans to taxpayers. In addition, SPEC function management explained that the indicator field is blocked and cannot be updated by the volunteers. Without a method to track and control the Volunteer Program RALs, the IRS increases the risks that 1) this aspect of the Volunteer Program is not being monitored for quality performance and 2) regulations are not being consistently followed.

## **Recommendations**

The Commissioner, Wage and Investment Division, should:

**Recommendation 4:** Include a requirement in the Volunteer Program Form 13533 that applicants document whether they will be offering RALs at their volunteer sites and designate those sites. The applicants should be required to include details of the RALs offered, including the fees and interest rate charged, financial institution(s) involved, and marketing of the Loans.

**Management’s Response:** IRS management agreed with this recommendation. The SPEC function will add a question to Form 13533 to identify other products and services being offered by Volunteer Program sites and will obtain this information from new sites when they complete a Form 13533. It will include a similar question in the site review process with respect to existing partners. If RALs are offered, the SPEC function will request information from the partner regarding the fees, interest rate charged, financial institution(s) involved, and marketing products/strategies. The IRS does not wish to endorse RALs or other bank products by specifically asking if the site offers RALs because the IRS promotes free income tax preparation.

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<sup>15</sup> Electronic Return Originators originate the electronic submission of income tax returns to the IRS. An Electronic Return Originator electronically submits income tax returns that are either prepared by the Electronic Return Originator’s firm or collected from a taxpayer.



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**Recommendation 5:** Require that the SPEC function ensure that volunteers are able to input the RAL indicator when transmitting the tax returns to the IRS. In addition, the SPEC function should include this indicator on its management information system used to control the Volunteer Program.

**Management's Response:** IRS management disagreed with the recommendation to ensure that volunteers are able to activate the RAL indicator in the commercial software used by volunteers to prepare tax returns when transmitting tax returns to the IRS. If the SPEC function turned on the RAL indicator at this time, the downstream impact to partners and their established processes might be negative. The IRS software contract would have to be modified because activation of the RAL indicator is precluded by the current contract. Activating the RAL indicator would result in additional applications and fees that could be passed on to the partners and/or taxpayers. Inputting the indicator requires that the partner use the approved banks of the software provider rather than a bank with which the partner might have negotiated lower fees. All of these factors must be thoroughly investigated and analyzed and any risks must be identified before the IRS can determine whether this action will provide the desired results.

The SPEC function will request changes to its management information system (the SPEC Taxpayer Assistance Reporting System) to add a field that can be used to identify sites offering RALs.

**Office of Audit Comment:** We agree that the IRS needs to consider the additional costs and investigate further before making a final determination. However, the IRS currently cannot determine which sites offer RALs or the number of--and/or which--taxpayers who visit VITA sites to obtain RALs to determine their effect on the Volunteer Program and to ensure that all procedures and regulations are followed.

**Recommendation 6:** Ensure that site visits include a review of RALs to ensure that the Loans are being offered and filed consistently with written guidance issued by the IRS.

**Management's Response:** IRS management agreed with this recommendation. They agreed that they should monitor preparers, including volunteer preparers, offering RALs or similar bank products to ensure their compliance with IRS regulations and procedures. However, management believes that this should be accomplished within the parameters of existing IRS oversight programs. The Small Business/Self-Employed Division Examination Special Processes function is responsible for and currently conducts reviews of Electronic Return Originators, including those that offer RALs. The reviews are selected from information supplied by an Electronic Tax Administration function database. The VITA sites are included in this population and are subject to review. The Small Business/Self-Employed Division coordinates its reviews of VITA sites with the local SPEC function Territory Manager. The basic selection criteria used include sites that file 100 or more returns and have a 25 percent reject rate, or those for





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which a complaint has been received. The presence of a RAL indicator is not part of the selection criteria. However, if RALs are found to be offered, a checklist is completed. Because VITA sites are included in the Small Business/Self-Employed Division Electronic Return Originator reviews, sufficient oversight exists in this area.

**Office of Audit Comment:** Although the IRS agreed with this recommendation, it stated that overseeing the volunteers offering RALs would be accomplished within the parameters of an existing program in the Small Business/Self-Employed Division. We will follow up on this action during the 2009 Filing Season audit of the Volunteer Program.



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## Appendix I

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

The overall objective of this review was to determine whether taxpayers receive quality service, including the accurate preparation of their income tax returns, when visiting Volunteer Program<sup>1</sup> sites. We also determined whether the IRS makes adequate efforts to ensure the integrity of the volunteers participating in the Volunteer Program. This review was limited to community-based VITA Program sites and TCE Program sites sponsored by the AARP.<sup>2</sup> To accomplish the objective, we:

- I. Determined whether Volunteer Program sites were accurately preparing individual income tax returns based on facts provided by taxpayers.
  - A. Selected a judgmental sample of 36 VITA/Colocated VITA Program<sup>3</sup> and AARP sites nationwide and had tax returns prepared. We selected sites in 12 cities, with a total of 3 VITA/Colocated VITA Program and AARP sites being selected in each city. Site selection was based on the volume of tax returns prepared by the sites, auditor resources, and the sites' proximity to major cities. The population of Volunteer Program sites is not fixed because sites open and close throughout the filing season.<sup>4</sup> Therefore, we could not determine the total population of Volunteer Program sites and could not select a statistical sample.<sup>5</sup>
  - B. At each site, an auditor:
    1. Asked to have his or her individual income tax return prepared using the information from the scenarios we had prepared to address questions included on intake sheets or asked by the volunteer preparing the tax return.
    2. Documented specific information as it relates to the preparation of the tax return.
  - C. Determined whether the tax return prepared by the volunteer was correct.
  - D. If a tax return was prepared incorrectly, determined why the return was prepared incorrectly and calculated the potential impact on taxpayers and tax revenue.

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<sup>1</sup> The IRS Volunteer Program includes the VITA and TCE Programs.

<sup>2</sup> Formerly the American Association of Retired Persons.

<sup>3</sup> Some community-based VITA sites are located in buildings occupied by one or more IRS offices.

<sup>4</sup> The filing season is the period from January through mid-April when most individual income tax returns are filed.

<sup>5</sup> See Appendix V for a list of cities and States selected.



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- II. Assessed the effectiveness of the IRS process to determine the Volunteer Program accuracy rate by selecting a judgmental sample of 91 completed Return Reviews from a total population of 260 Review cases to assess the completeness and accuracy of the completed Return Reviews. Because of limited resources, we performed limited testing of 6 judgmentally selected volunteer sites from a total population of 350 sites included in a Statistics of Income Division review plan to determine whether quality review procedures were consistently followed
  
- III. Assessed the adequacy of efforts to ensure the integrity of the volunteers participating in the Volunteer Program. We did not independently validate the reliability of the IRS data used in this Step because we did not need to do so to achieve our audit objective. We determined the desired volume of volunteer sites and Proposed Program Plans required for review and selected a random sample to ensure there was an equal chance of volunteer sites and Proposed Program Plans being selected
  - A. Selected a random sample of 30 volunteer sites from a database with a total population of 11,754 open volunteer sites provided by the IRS to determine whether a Sponsor Agreement (Form 13533) was signed. The random number generator in Enterprise Guide was used to generate the random sample.
  - B. Selected a random sample of 30 volunteer sites from a database with a total population of 11,754 open volunteer sites provided by the IRS to determine whether volunteers signed a Volunteer Agreement Standards of Conduct – VITA/TCE Programs (Form 13615). The random number generator in Enterprise Guide was used to generate the random sample.
  - C. Selected a random sample of 21 Proposed Program Plans for TCE Non-AARP volunteer sites from a database with a total population of 11,754 open volunteer sites provided by the IRS to determine whether all Plans contained the required narrative to ensure taxpayer privacy and to maintain the confidentiality of the tax returns prepared by the volunteers. The random number generator in Enterprise Guide was used to generate the random sample.
  
- IV. Determined whether RALs are offered at Volunteer Program sites.
  - A. Determined whether the IRS controlled and tracked the RALs offered at Volunteer Program sites.
  - B. Determined the IRS' oversight of the RALs offered at Volunteer Program sites.



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## **Appendix II**

### *Major Contributors to This Report*

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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  
National Taxpayer Advocate TA  
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  
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**

*General Characteristics of Tax Year 2006 Tax Returns Prepared by the Volunteer Program<sup>1</sup>*

Type of Tax Return	VITA		TCE (AARP <sup>2</sup> Under 60 Years of Age)	
	Tax Return Volume	Percentage of Total	Tax Return Volume	Percentage of Total
U.S. Individual Income Tax Return (Form 1040)	681,703	81.74%	404,410	94.78%
Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ)	66,448	7.97%	14,502	3.40%
U.S. Individual Income Tax Return (Form 1040A)	77,413	9.28%	7,258	1.70%
U.S. Nonresident Alien Income Tax Return (Form 1040NR)	237	0.03%	27	0.01%
U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents (Form 1040NR-EZ)	7,515	0.90%	408	0.10%
U.S. Individual Income Tax Return (PC) (Form 1040PC)	637	0.08%	58	0.01%
U.S. Self-Employment Tax Return – Puerto Rico (Form 1040-PR)	8	0.00%	0	0.00%

<sup>1</sup> The IRS Volunteer Program includes the VITA and TCE Programs.

<sup>2</sup> Formerly the American Association of Retired Persons.



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Refund Due/ Balance Due	VITA			TCE (AARP Under 60 Years of Age)		
	Dollar Totals	Tax Return Volume	Percentage of Tax Return Volume	Dollar Totals	Tax Return Volume	Percentage of Tax Return Volume
Refund Due	\$1,012,288,376	743,048	89.10%	\$486,692,571	374,217	87.71%
Balance Due	\$68,175,600	86,231	10.34%	\$44,057,205	50,946	11.94%
Breakeven	\$0	4,682	0.56%	\$0	1,500	0.35%

Filing Status/Dependent Claims	VITA		TCE (AARP Under 60 Years of Age)	
	Tax Return Volume	Percentage of Total	Tax Return Volume	Percentage of Total
Single	492,154	59.01%	263,957	61.87%
Head of Household	175,631	21.06%	67,696	15.87%
Married Filing Jointly	149,602	17.94%	85,710	20.09%
Widow(er) With Dependent Child	426	0.05%	288	0.07%
Married Filing Separately and Spouse Is Required to File	16,056	1.93%	8,994	2.11%
Married Filing Separately and Spouse Is Not Required to File	92	0.01%	18	0.00%
Tax Return Prepared With One or More Dependent Exemptions, Including Parents	261,940	31.41%	122,147	28.63%
Tax Return Prepared With No Dependent Exemptions	572,021	68.59%	304,516	71.37%



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Credits Claimed	VITA		TCE (AARP Under 60 Years of Age)	
	Tax Return Volume	Dollar Totals	Tax Return Volume	Dollar Totals
Earned Income Tax*	278,119	\$404,510,906	132,401	\$155,173,913
Additional Child Tax*	103,573	\$93,039,544	41,026	\$38,221,152
Child Tax*	95,347	\$82,879,735	52,909	\$55,556,346
Retirement Savings Contributions*	48,032	\$7,196,291	29,424	\$4,508,488
Education	40,293	\$25,276,395	22,564	\$14,442,143
Child and Dependent Care*	20,224	\$9,304,657	10,039	\$4,466,230
Other (Adoption, Gas, and Health Coverage Tax)	163	\$248,519	117	\$201,164

\* = This credit was included in our test scenarios.

Income	VITA		TCE (AARP Under 60 Years of Age)	
	Tax Return Volume	Dollar Totals	Tax Return Volume	Dollar Totals
Average Income <sup>3</sup>	833,961	\$17,856	426,663	\$22,081
Other Income <sup>4</sup>	31,884	\$106,409,882	16,355	\$48,863,609

Source: IRS management information system containing all Tax Year 2006 tax return data.

<sup>3</sup> Average Income was determined in Enterprise Guide by taking the average of the total income of all taxpayers.

<sup>4</sup> Other Income is a line item on the Form 1040 series tax returns that is not reported on any tax schedules or anywhere else on the tax returns.





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## **Appendix V**

### *Cities and States Visited to Have Tax Returns Prepared*

- Brooklyn, New York
- Charlestown/Fall River/Roxbury, Massachusetts
- Cleveland, Ohio
- Detroit, Michigan
- Houston, Texas
- Jacksonville, Florida
- Los Angeles, California
- Pittsburgh, Pennsylvania
- Saint Paul, Minnesota
- Springfield, Illinois
- Tucson, Arizona
- Winston-Salem, North Carolina



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**Appendix VI**

*Results of Tax Returns Incorrectly Prepared at Volunteer Program<sup>1</sup> Sites*

<b>Volunteer Sites Visited</b>	<b>Type of Site</b>	<b>Volunteer Site Refund or Balance Due</b>	<b>Correct Refund or Balance Due</b>	<b>Amount of Understated Refund</b>	<b>Amount of Overstated Refund</b>
Cleveland, Ohio	VITA	\$1,170	\$2,218	-\$1,048	
Cleveland, Ohio	AARP <sup>2</sup>	\$1,549	\$2,218	-\$669	
Detroit, Michigan	AARP	\$1,504	\$2,218	-\$714	
Detroit, Michigan	VITA	\$1,504	\$2,218	-\$714	
Houston, Texas	VITA	\$1,599	\$2,218	-\$619	
Houston, Texas	AARP	\$1,839	\$2,218	-\$379	
Jacksonville, Florida	VITA	\$103	\$98		\$5
Los Angeles, California	VITA	\$2,093	\$2,218	-\$125	
Roxbury, Massachusetts	VITA	\$1,818	\$2,218	-\$400	
Tucson, Arizona	VITA	\$2,203	\$2,218	-\$15	
Winston-Salem, North Carolina	VITA	\$6,061	\$98		\$5,963
<b>Totals:</b>				<b>-\$4,683</b>	<b>\$5,968</b>

*Source: Anonymous visits performed by our auditors.*

<sup>1</sup> The IRS Volunteer Program includes the VITA and TCE Programs.


<sup>2</sup> Formerly the American Association of Retired Persons.



*Accuracy of Volunteer Tax Returns Continues to Improve, but Better Controls Are Needed to Ensure Consistent Application of Procedures and Processes*

**Appendix VII**

*Accuracy of Eligibility Determinations*

Eligibility Assessment				
Scenario # 1			Scenario # 2	
<b>9 (50 percent) of 18 Tax Returns Prepared Incorrectly</b>			<b>2 (11 percent) of 18 Tax Returns Prepared Incorrectly</b>	
Tax Law Topic	Number of Tax Returns Which Tax Eligibility Determination Was Incorrect	Percentage Incorrect	Number of Tax Returns Which Tax Eligibility Determination Was Incorrect	Percentage Incorrect
 Child Tax Credit	0	0%	1	6%
Child and Dependent Care Credit	2	11%	Not Included	Not Applicable
Dependency Exemption	1	6%	1	6%
Earned Income Tax Credit	4	22%	1	6%
Filing Status	2	11%	0	0%
Income	1	6%	1	6%
Retirement Savings Contributions Credit	4	22%	Not Included	Not Applicable
Additional Child Tax Credit	0	0%	1	6%
<b>Taxpayer Key Facts:</b> <input type="checkbox"/> Lived with his or her 8-year-old child. <input type="checkbox"/> Contributed to a 401(k) plan. <input type="checkbox"/> Received a statement of Interest Income (Form 1099-INT). <input type="checkbox"/> Had dependent care expenses.			<b>Taxpayer Key Facts:</b> <input type="checkbox"/> Single. <input type="checkbox"/> Two children. <input type="checkbox"/> Children lived with the other parent during the school year.	

Source: Tax returns prepared for our auditors by Volunteer Program volunteers during the 2008 Filing Season.<sup>1</sup>

<sup>1</sup> The IRS Volunteer Program includes the VITA and TCE Programs. The filing season is the period from January through mid-April when most individual income tax returns are filed.



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*Accuracy of Volunteer Tax Returns Continues to Improve, but  
Better Controls Are Needed to Ensure Consistent Application  
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## **Appendix VIII**

### *Treasury Inspector General for Tax Administration Audit Reports on the Volunteer Return Preparation Program*

*Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites* (Reference Number 2004-40-154, dated August 2004).

*Significant Improvements Have Been Made in the Oversight of the Volunteer Income Tax Assistance Program, but Continued Effort Is Needed to Ensure the Accuracy of Services Provided* (Reference Number 2006-40-004, dated November 2005).

*Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program* (Reference Number 2006-40-125, dated August 31, 2006).

*Accuracy of Volunteer Tax Returns Is Improving, but Procedures Are Often Not Followed* (Reference Number 2007-40-137, dated August 29, 2007).



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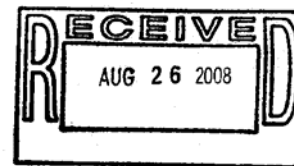
**Appendix IX**

*Management's Response to the Draft Report*



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308



AUG 26 2008

MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report - Accuracy of Volunteer Tax Returns  
Continues to Improve, but Better Controls Are Needed to  
Ensure Consistent Application of Procedures and Processes  
(Audit # 200840010)

I reviewed your subject draft report and agree in part with your recommendations. I appreciate your acknowledgement that the Stakeholder Partnerships, Education and Communication (SPEC) function and its community based partners continue to show a commitment to improving the return preparation process. This commitment has resulted in increased accuracy rates for over three million tax returns prepared at Volunteer Income Tax Assistance and Tax Counseling for the Elderly (VITA/TCE) sites since the Treasury Inspector General for Tax Administration (TIGTA) performed its first VITA/TCE Program review during the 2004 Filing Season.

As stated in your report, the Volunteer Program plays an increasingly important role in achieving the IRS goal of improving taxpayer service and facilitating participation in the tax system. Considering the complexity of tax laws and complicated family situations, the program provides no-cost Federal tax return preparation and electronic filing directed toward underserved segments of individual taxpayers, including low to moderate income, elderly, disabled, and limited-English-proficient taxpayers.

I am pleased your report acknowledges significant improvements were made to the Volunteer Program for the 2008 Filing Season and that accuracy rates have improved significantly with the continued and consistent application of the Volunteer Return Preparation Program-Quality Improvement Process. The SPEC Office is working closely with the Statistics of Income Office and Research to develop and implement an improved methodology to measure the accuracy of volunteer return preparation in the VITA/TCE programs. During the 2008 Filing Season, SPEC conducted 966 Return Reviews. The resulting data will be used to establish an accuracy measure, within a 95



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percent confidence level, for the entire population of returns prepared at VITA/TCE sites.

While I generally agree with your recommendations, I do not agree with them in their entirety. This is based primarily on reviewing the benefits to be gained from implementation of the recommendations, as well as the results to be realized from an increased burden upon an already highly leveraged volunteer base. Your report recognized that partner organizations and their volunteers are the most valuable resources within the IRS's tax return preparation program. The corrective actions, described in the attached, are designed to address your concerns while maintaining a highly energetic and enthusiastic volunteer base.

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, SPEC, at (404) 338-7104.

Attachment



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**Attachment**

**RECOMMENDATION 1**

The Commissioner, Wage and Investment Division, should require that the Return Review process be well documented, including using and retaining a review checklist, so external reviews can be conducted and results can be measured.

**CORRECTIVE ACTION**

We agree with this recommendation. Stakeholder Partnerships, Education and Communication (SPEC) will implement a Centralized Return Review Cadre during Filing Season 2009. To ensure consistent quality reviews are performed, the Cadre will consist of 25 employees specifically trained to perform return reviews. Procedures will be implemented to ensure the Return Review process is well documented. Return review documentation will be captured and retained for subsequent external review by the scanning and electronic storage of all documents pertinent to the review.

**IMPLEMENTATION DATE**

April 15, 2009

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division

**CORRECTIVE ACTION(S) MONITORING PLAN**

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

**RECOMMENDATION 2**

Ensure that all Forms 13615 are signed and dated by volunteers prior to the start of their service.

**CORRECTIVE ACTION**

We agree with this recommendation. The SPEC organization will place appropriate emphasis on volunteers signing and dating Form 13615, Volunteer Standards of Conduct, prior to the start of their service. In addition, this item will be a subject of discussion during SPEC's Filing Season Readiness Training.

**IMPLEMENTATION DATE**

February 15, 2009

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division





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**CORRECTIVE ACTION(S) MONITORING PLAN**

We will monitor this corrective action as part of our internal control system. Form 13615 will also be reviewed during site reviews.

**RECOMMENDATION 3**

For the short term, revise Form 13615 to include a question to determine whether the applicant has been convicted of a crime and have the applicant sign the Form under penalty of perjury. For the long term, the Commissioner should conduct a study to evaluate the applicability and feasibility of standards used by other volunteer organizations.

**CORRECTIVE ACTION**

We agree, in part, with this recommendation. As stated in your report, revising Form 13615 to include a question to determine whether an applicant has been convicted of a crime may not ensure volunteer integrity. We will not immediately revise Form 13615. However, we will discuss this issue with our Partners, since the volunteers supporting Volunteer Income Tax Assistance and Tax Counseling for the Elderly (VITA/TCE) work for them and not directly for the IRS. We agree to conduct a study with our Partners to determine and evaluate the impact of adding this additional question to Form 13615 and associated requirements of such a disclosure. As part of this study, we will work with the Treasury Inspector General for Tax Administration (TIGTA) to provide us with any analysis or research performed in making this recommendation.

In addition, SPEC Partners or Site Coordinators complete and sign Form 8633, Application to Participate in the IRS e-file Program, to become an Electronic Return Originator (ERO). Question seven of Form 8633 requires the applicant to disclose if they have been convicted of a crime. Given the roles and responsibilities of the Partner/Site Coordinator, completion of Form 8633 will be used in the short term to address concerns in this area.

**IMPLEMENTATION DATE**

October 15, 2009

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division

**CORRECTIVE ACTION(S) MONITORING PLAN**

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





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**RECOMMENDATION 4**

Include a requirement in the Volunteer Program Form 13533 that applicants document whether they will be offering RALs at their volunteer sites and designate those sites. The applicants should be required to include details of the RALs offered, including the fees and interest rate charged, the financial institution(s) involved, and the marketing of the Loans.

**CORRECTIVE ACTION**

We agree to add a question to Form 13533, Sponsor Agreement, to identify other products and services being offered by VITA/TCE sites and will obtain this information from new sites when they complete a Form 13533. We will include a similar question in the site review process with respect to existing Partners. If Refund Anticipation Loans (RAL) are offered, we will request information from the Partner regarding the fees, interest rate charged, the financial institution(s) involved, and their marketing products/strategies. We do not wish to endorse RALs or other bank products by specifically asking if the site offers RALs since we promote free income tax preparation.

**IMPLEMENTATION DATE**

October 15, 2008

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division

**CORRECTIVE ACTION(S) MONITORING PLAN**

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

**RECOMMENDATION 5**

Require that the SPEC function ensure that volunteers are able to input the RAL indicator when transmitting the tax returns to the IRS. In addition, the SPEC function should include this indicator on its management information system used to control the Volunteer Program.

**CORRECTIVE ACTION**

We do not agree with the requirement to ensure volunteers are able to activate the RAL indicator in TaxWise when transmitting tax returns to the IRS at this time. If SPEC were to turn on the TaxWise RAL indicator, the downstream impact to Partners and their established processes may be negative. The IRS Tax Wise contract would have to be modified, because activation of the RAL indicator is precluded by the current contract. Activating the RAL indicator would result in additional applications and fees that could be passed on to our Partners/Taxpayers. Inputting the indicator in Tax Wise requires that the Partner use the approved banks of Tax Wise rather than a bank with which they may have negotiated lower fees. All of these factors must be thoroughly investigated,



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analyzed, and any risks identified before we can make a determination as to whether or not this action will provide the desired results.

The SPEC function will request changes to its management information system, SPEC Taxpayer Assistance Reporting System (STARS), to add a field which can be used to identify sites offering RALs.

**IMPLEMENTATION DATE**

April 15, 2009

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division

**CORRECTIVE ACTION(S) MONITORING PLAN**

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

**RECOMMENDATION 6**

Ensure that site visits include a review of RALs to ensure that the Loans are being offered and filed consistently with written guidance issued by the IRS.

**CORRECTIVE ACTION**

We agree the IRS should monitor preparers, including volunteer preparers, offering RALs or similar bank products to ensure their compliance with IRS Regulations and Procedures. However, we believe this should be accomplished within the parameters of existing IRS oversight programs.

The Small Business/Self-Employed (SB/SE) Division, Examination Special Processes, has responsibility for and currently conducts reviews of EROs, including those that offer RALs. The reviews are selected from information supplied by an Electronic Tax Administration (ETA) database. The VITA sites are included in this population and are subject to review. The SB/SE Division coordinates their reviews of VITA sites with the local SPEC Territory Manager. The basic selection criteria used is sites that file 100 or more returns and have a 25 percent reject rate, or those for which a complaint has been received. The presence of a RAL indicator is not part of the selection criteria. However, if RALs are found to be offered, a check list is completed. Since VITA sites are included in the SB/SE ERO reviews, sufficient oversight exists in this area. We do not wish to add any additional SPEC oversight and will continue our current practice.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division



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*Accuracy of Volunteer Tax Returns Continues to Improve, but  
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**CORRECTIVE ACTION(S) MONITORING PLAN**

N/A