



*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*

November 2005

Reference Number: 2006-40-004

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 4, 2005

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

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

SUBJECT: Final Audit Report – 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 (Audit # 200540002)

This report presents the results of our review to determine whether taxpayers receive quality service, including the accurate preparation of their tax returns, when visiting Volunteer Income Tax Assistance (VITA) sites to have tax returns prepared.¹ We also assessed the ease with which taxpayers can locate VITA sites and determine the specific services offered and the Internal Revenue Service's (IRS) process for ensuring the overall quality of VITA Program operations. This audit is a follow-up to a prior Treasury Inspector General for Tax Administration (TIGTA) review.²

Synopsis

The Tax Reform Act of 1969³ resulted in the formation of the VITA Program. Emphasis has continually focused 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. VITA sites are often located at neighborhood centers, libraries, schools, churches, and shopping malls. The VITA Program provides no-cost Federal tax return preparation and electronic filing to target underserved segments of individual

¹ Testing did not involve VITA sites associated with the military or the Tax Counseling for the Elderly Program.

² *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).

³ Pub. L. No. 91-172, 83 Stat. 487 (codified as amended in scattered sections of 26 U.S.C. and 42 U.S.C.).



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taxpayers, including low-income, elderly, disabled, and limited-English-proficient taxpayers. These taxpayers are frequently involved in complex family situations that make it difficult to correctly understand and apply the tax law.

The prior TIGTA review identified that VITA volunteers did not always correctly prepare tax returns and taxpayers did not always receive accurate information about VITA site locations, hours of operation, and scope of services from the IRS. IRS management committed to emphasizing the requirement for VITA volunteer training certifications; implementing an automated system to improve the Stakeholder Partnerships, Education, and Communication (SPEC) function's ability to provide VITA volunteers with Quality Alert updates; implementing a plan for quality review and quality assurance; and building an indicator in the IRS computer system used to control VITA sites for field offices to use to acknowledge verification of VITA site information accuracy.

From February through April 2005, TIGTA auditors performed 36 anonymous visits and had 35 tax returns prepared.⁴ We determined the IRS had established and implemented a number of initiatives and processes that have resulted in improvements to the VITA Program, including the SPEC function's increased ability to oversee and monitor the Program. The SPEC function is requiring all VITA volunteers, regardless of their professional background and experience, to pass⁵ a tax law examination and sign a Standards of Conduct Volunteer Return Preparation Program (Form 13615), enhancing training and tax reference materials, developing a multiyear quality business plan, and upgrading the management information system.

In addition, the SPEC function began issuing Quality Alerts to proactively address emerging issues affecting the quality of tax return preparation. The extent to which the Quality Alerts are reaching the frontline VITA volunteers remains somewhat unanswered because there is no system in place to ensure all VITA sites and VITA volunteers receive the Alerts. After the Quality Alerts were issued, TIGTA auditors asked volunteers at 18 VITA sites if the sites had received the Alerts; 6 (33 percent) of the 18 VITA sites had not.

Challenges remain for an effective quality assurance process. Key controls implemented by the SPEC function to help ensure the accuracy of tax returns prepared by VITA volunteers were not consistently followed. As a result, 23 (66 percent) of the 35 tax returns prepared during this review were incorrect. If 18 (78 percent) of the 23 incorrectly prepared tax returns had been filed, the IRS would have incorrectly refunded \$17,818. Alternatively, if the remaining 5 (22 percent) incorrectly prepared tax returns had been filed, the taxpayers would not have received \$3,215 in tax refunds to which they were entitled.

⁴ At one site, a tax return was not completed because some volunteers had not been certified (i.e., they were not trained and had not signed the Standards of Conduct Volunteer Return Preparation Program (Form 13615)).

⁵ To "pass" an examination, the VITA Program volunteer must earn a score of 70 percent or better.



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Reviews of the selected VITA sites showed that VITA volunteers did not always use or refer to intake sheets or resource guides when preparing tax returns and did not always perform a quality review of the completed tax returns. In addition, controls developed to ensure VITA site information provided by the IRS is accurate were not always followed. VITA site information provided by IRS toll-free telephone program assistants was inaccurate for 29 (45 percent) of 64 sites tested.

Furthermore, although a comprehensive quality assurance process was proposed in response to the prior TIGTA review, a number of obstacles, including stakeholder concerns about the intrusiveness of an observation process and data collection restrictions, have prevented the implementation of an effective process.

Recommendations

We recommended the Commissioner, Wage and Investment Division, develop a process to ensure Quality Alerts are distributed to all VITA volunteers, revise the Tax Preparation Information Sheet (Form 13614)⁶ to include questions to determine whether taxpayers are divorced and anyone else can claim their children as dependents, ensure Site Information Sheets are received from each participating VITA site and the information from the Sheets is accurately reflected in the information used by IRS toll-free telephone program assistants, and pursue methods to achieve the objectives for the quality assurance process planned for the 2005 Filing Season.⁷

Response

IRS management appreciates our continued recognition of the immense challenges that VITA volunteers face in preparing accurate returns, considering the complexity of the tax law and the often complicated family situations. IRS management also agrees challenges remain and the process could be improved. IRS management agreed with our recommendations and is taking corrective actions. The SPEC function will educate partners and site coordinators on the Quality Alerts at site coordinator meetings and will conduct random checks at the Territory level to determine if volunteers received the Quality Alerts. It also revised the Form 13614 to include questions to determine whether taxpayers are divorced and anyone else can claim their children. In Fiscal Year 2006, the SPEC function will require mandatory use of the newly designed SPEC Volunteer Site Information Sheet (Form 13715). Area Offices will ensure site accuracy by conducting at least 10 percent test calls to VITA appointment-only sites by March 1, 2006. The SPEC function will develop procedures for continuous updates by sharing the Form 13715

⁶ The IRS refers to Form 13614 as the "Interview and Intake Sheet" in its response to the draft report (Appendix IX).

⁷ The 2005 Filing Season relates to the processing of Tax Year 2004 tax returns. The filing season is the period from January through mid-April when most individual income tax returns are filed.



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electronically with site coordinators to provide real-time changes that may occur throughout the filing season. Finally, the SPEC function is planning a three-tier approach to its Quality Improvement Program to include site reviews, shopping reviews, and tax return reviews. The tax return reviews will be in lieu of observation reviews because of stakeholder concerns and SPEC function management's belief that the observations did not yield valid data because individuals act differently when being observed. Management's complete response to the draft report is included as Appendix IX.

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 Scott Macfarlane, Acting Assistant Inspector General for Audit (Wage and Investment Income Programs), at (925) 210-7027, ext. 102.



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Background

The Internal Revenue Service (IRS) Volunteer Income Tax Assistance (VITA) Program originated in 1969 due to enactment of the Tax Reform Act of 1969¹ and an increased emphasis on taxpayer education programs. Emphasis has continually focused 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 location of community-based VITA sites² is often neighborhood centers, libraries, schools, churches, and shopping malls.

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

Oversight of the VITA Program is the responsibility of the IRS Stakeholder Partnerships, Education, and Communication (SPEC) function.

The SPEC function is responsible for determining policies and procedures, developing products and training material, and monitoring and managing VITA Program activity. The SPEC function's business objectives include increasing access to VITA sites for low-income taxpayers, increasing *e-filing*, and enhancing tax return accuracy. During the 2005 Filing Season,³

***For the 2005 Filing Season,
taxpayers using the VITA Program
to prepare and e-file their tax returns
potentially saved a minimum of
\$30 million.***

4,620 community-based VITA sites were involved in the preparation of over 600,000 tax returns.

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

² Community-based VITA sites do not include the 9,527 sites associated with the military or the Tax Counseling for the Elderly Program, including the AARP (formerly the American Association of Retired Persons).

³ The 2005 Filing Season relates to the processing of Tax Year 2004 tax returns. The filing season is the period from January through mid-April when most individual income tax returns are filed.



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The VITA Program model is based on the assumption that national and local partners will invest in tax administration

While preparing accurate tax returns is an immediate business objective of the VITA Program, sustaining current levels of tax preparation service is a critical strategic challenge. Supporting and delivering significant tax return preparation volume is resource intensive. The SPEC function's partner-based business model is rapidly evolving to address this issue. It is based on the fundamental assumption that national and local partners will invest in tax administration (i.e., outreach and tax return preparation) if such programs provide tangible benefits for their constituents.

Therefore, an early component of the model linked funds produced through tax refunds and tax credits to broader financial literacy and asset-building initiatives for taxpayers that seek the services provided by a VITA site. Accurate tax return preparation became the catalyst for the SPEC function's partners to offer financial workshops; bring the "unbanked" into the financial system; provide debt and credit counseling; and, in many cases, offer individual development accounts. SPEC function management supports these initiatives because they believe there is a link between financial viability and ongoing tax compliance.

That tax administration can serve as the means to broader ends is central to the SPEC function's strategic vision. To expand the value of community-based partnerships or coalitions and, more importantly, expand the scope of potential resources, the SPEC function and its partners are introducing multibenefit services to volunteer programs. Increasingly, services such as food stamps and children's health insurance, food and nutrition education, energy assistance, and transportation subsidies directed to low-income individuals and families are being offered at VITA sites.

Developing an integrated portfolio of community services is central to a strategy of expanding and sustaining tax administration programs over an extended period. The SPEC function's national partner recruitment strategy identifies organizations, including many Federal Government agencies, interested in providing critical funding to the VITA Program because of an intersection of interests and goals. For example, a recent Memorandum of Understanding was signed between the SPEC function and the Department of Justice. It represents the Department of Justice providing \$1 million dollars in grants for volunteer tax preparation and individual development accounts under a program entitled "Weed and Seed."



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A prior Treasury Inspector General for Tax Administration (TIGTA) audit identified that improvements were needed to ensure tax returns are prepared correctly at VITA sites

A prior TIGTA audit identified that tax returns were not always correctly prepared by VITA volunteers and taxpayers did not always receive accurate information about VITA site locations, hours of operation, and scope of services from the IRS.⁴ The lack of tax return accuracy was generally attributed to the absence of or need to improve oversight and processes relating to (1) gathering and using key taxpayer information, (2) ensuring accountability and appropriate training, and (3) reviewing the quality of completed tax returns. The lack of accurate VITA site information was associated with inconsistent adherence to guidelines in place to ensure VITA site information is input timely and accurately into the IRS computer system used to control VITA sites.

We recommended the IRS review the existing process for ensuring volunteers are qualified to prepare tax returns, develop a quality review program that ensures volunteers are correctly applying the law, and ensure VITA Program site information is current and accurate. In response, IRS management committed to emphasizing the requirement for volunteer training certifications, implementing an automated system to improve the SPEC function's ability to provide volunteers with Quality Alert updates, implementing a plan for quality review and quality assurance, and building an indicator in the IRS computer system used to control VITA sites that field offices will use to acknowledge verification of VITA site information accuracy.

Scenarios used in the follow-up review by auditors during anonymous visits reflected characteristics typical of taxpayers that seek assistance from the VITA Program

In response to the previous TIGTA audit, IRS management expressed concerns that the scenarios used during anonymous visits may not have been representative of taxpayers that seek assistance from the VITA Program. To ensure the scenarios used in this current review reflected the characteristics of taxpayers that seek assistance from the VITA Program, we based the scenarios on the tax filing characteristics of individuals that used a community-based VITA site to have their Tax Year 2003 tax returns prepared.⁵ These taxpayers, on average, earned approximately \$15,050 annually, and about 34 percent of them claimed 1 or more dependents. Figure 1

⁴ *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).

⁵ This is the most recent complete year of data the IRS has for the VITA Program.



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provides some additional key characteristics of the 518,604 individuals that had their Tax Year 2003 tax returns prepared at VITA sites.

Figure 1: General Characteristics of the Tax Returns Prepared by the VITA Program in 2004 (Tax Year 2003)

Type of Tax Return	Volume	Percentage of Total
Form 1040 – U.S. Individual Income Tax Return	60,300	11.63%
Form 1040EZ – Income Tax Return for Single and Joint Filers With No Dependents	54,610	10.53%
Form 1040A – U.S. Individual Income Tax Return	397,120	76.57%
Form 1040NR – U.S. Nonresident Alien Income Tax Return	5,866	1.13%
Form 1040NR-EZ - U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents	311	0.06%
Form 1040 PC - U.S. Individual Income Tax Return (PC)	395	0.08%
Form 1040PR - U.S. Self-Employment Tax Return-Puerto Rico	2	0.00%

Type (Refund/Balance Due)	Tax Return Volume	Amount of Refund/Owed	Percentage of Total
With Refund Due	450,984	\$589,369,291	87%
With Balance Due	50,672	\$34,449,843	10%
Breakeven	16,948	\$0	3%

Filing Status	Tax Return Volume	Percentage of Total
Single	283,293	54.63%
Head of Household	114,987	22.17%
Married taxpayer filing joint return	109,679	21.15%
Widow(er) with dependent child	273	.05%
Married filing a separate return and spouse is not required to file	75	.01%
Married taxpayer filing a separate return, spouse required to file	10,297	1.99%

Credits Claimed	Tax Return Volume	Dollars	Percentage of Total
Earned Income Tax	178,365	\$235,304,499	34%
Child Tax	71,125	\$50,222,156	14%
Dependent Care	15,794	\$7,370,573	3%
Retirement Savings Contributions	29,924	\$5,106,907	6%

Source: IRS management information system containing all Tax Year 2003 tax returns prepared at VITA sites.



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The two scenarios developed for this follow-up review include:

Scenario 1 – The taxpayer is divorced and lives with his or her 7-year-old child. The taxpayer had the same job working as a clerk throughout 2004. Wages reported on the Wage and Tax Statement (Form W-2) totaled \$25,483. The taxpayer was paid bimonthly and contributed to a 401(k) plan. The taxpayer received an Interest Statement (Form 1099-INT) totaling \$110. As part of the taxpayer's divorce, the taxpayer signed a Release of Claim to Exemption for Child of Divorced or Separated Parents (Form 8332). The taxpayer receives \$300 a month for child support. The taxpayer had dependent care expenses totaling \$1,312.

Scenario 2 – The taxpayer is single, has never been married, and lives with his or her mother. The taxpayer has 2 children, a 10-year-old and 8-year-old that live with the taxpayer in the home of the taxpayer's mother during June, July, and August. The children live with the other parent during the school year. The taxpayer works a part-time evening job as a cashier and is paid \$10,210. The taxpayer's mother earns \$40,000 a year. The taxpayer attends college part time; the cost is paid for by the taxpayer's mother.

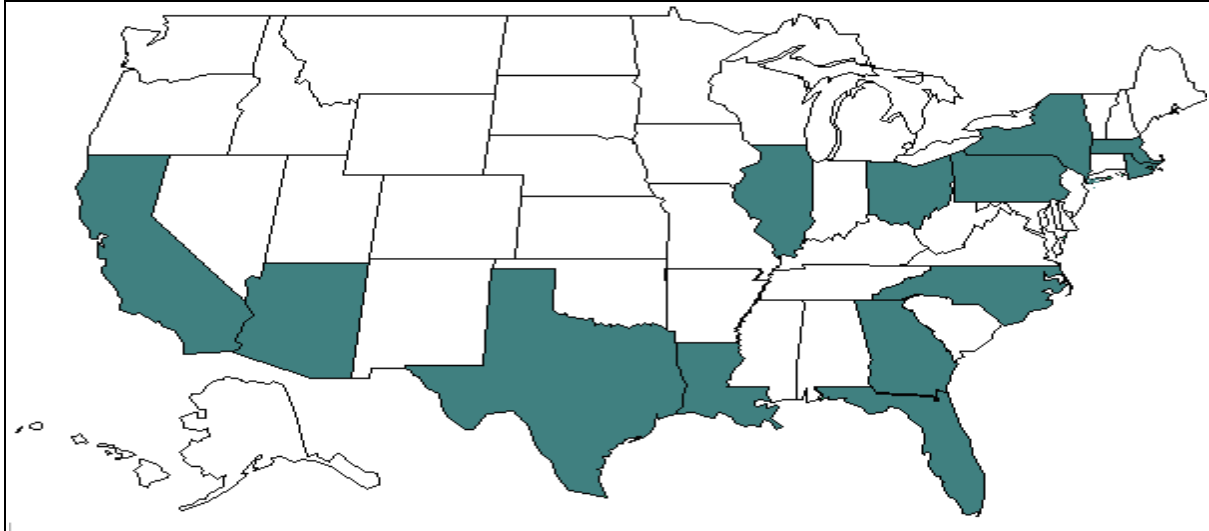
This follow-up review was performed at the IRS Customer Assistance, Relationships, and Education function in the Wage and Investment (W&I) Division Headquarters in Atlanta, Georgia, during the period January through May 2005. From February through April 2005, TIGTA auditors performed 36 anonymous visits and had 35 tax returns prepared⁶ at randomly selected VITA sites located in 13 States (see Figure 2). Appendix IV provides the specific city and State of the VITA sites visited as well as the volume of tax returns prepared by the VITA sites during the 2005 Filing Season. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁶ At one site, a tax return was not completed because some volunteers participating in the tax return preparation had not been certified (i.e., they were not trained and had not signed the Standards of Conduct Volunteer Return Preparation Program (Form 13615)).



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**Figure 2: States Included in the TIGTA's 2005 Filing Season
Assessment of the VITA Program**



Source: TIGTA auditors' visits to selected VITA sites.



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Results of Review

Significant Improvement in the Oversight of the Volunteer Income Tax Assistance Program Has Been Made

In response to concerns raised in the prior TIGTA review, the IRS established and implemented a number of initiatives and processes that have resulted in improvements in the VITA Program. These improvements have increased the ability of the SPEC function to oversee and monitor the Program. They include:

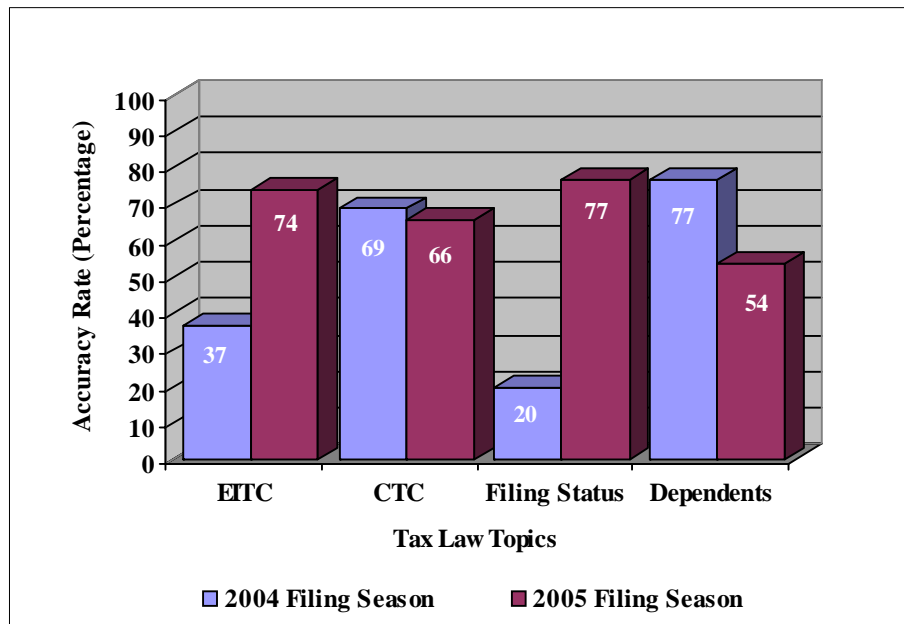
- **All VITA volunteers, regardless of professional background or experience, are now required to pass a tax law examination to be certified to prepare tax returns.**
SPEC function guidelines require each VITA volunteer directly involved in the preparation of tax returns (including quality reviewers) to pass a tax law examination regardless of the individual's tax preparation experience. Specifically, guidelines require VITA volunteers, prior to engaging in the tax return preparation process, to demonstrate that they have received an appropriate minimum level of training by passing a tax law examination. To "pass" an examination, the VITA volunteer must earn a score of 70 percent or better. For the 36 VITA sites we visited, 120 volunteers were present and directly involved in the quality review and preparation of tax returns. Of the 120 VITA volunteers, 115 (96 percent) had passed the required tax law examination.
- **VITA volunteers are now required to sign a rules of conduct statement.**
VITA volunteers are required to sign a Standards of Conduct Volunteer Return Preparation Program (Form 13615) that includes a commitment to apply the tax laws equitably and accurately to the best of their ability and to prepare tax returns only within the scope of their training and experience. Of the 120 volunteers present at the VITA sites during our visits, 116 (97 percent) had signed the required Form 13615.
- **Training is concentrated on areas identified as deficiencies in the prior TIGTA review.**
New minimum required training topics were identified for all VITA volunteers to ensure the Program training included tax issues most common to the Program's customer base. In addition, several key topics in the VITA Program volunteer training material were enhanced with interview tips and decision trees to affect learning. The revised training topics covered adjustments to income and tax computation, filing status, dependents, Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and the use of reference materials. Figure 3 presents a comparison of the accuracy of specific tax law topics from our prior review to those in this



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review. VITA volunteers increased the accuracy relating to two topics where increased training was provided, the EITC and filing status.

Figure 3: Comparison of Tax Law Accuracy for the 2004 and 2005 Filing Seasons⁷



Source: Tax returns prepared for TIGTA auditors by VITA site volunteers during the 2004 and 2005 Filing Seasons.

- **The SPEC/Partner Quality Improvement Team developed a multiyear quality business plan.** In April 2004, the SPEC function established a SPEC/Partner Quality Improvement Team (Quality Team). The Quality Team developed a multiyear quality business plan, which involved preparing a map outlining the end-to-end VITA Program process and identifying specific intervention points that provided an opportunity to improve the overall quality of the Program (see Figure 4). Subsequent to outlining the process, the Quality Team identified five strategies focusing on improving the quality of tax returns prepared by VITA volunteers: (1) volunteer training; (2) standard operating procedures; (3) participants in the VITA Program understanding their respective roles, responsibilities, and capabilities; (4) continual assessment of the quality of the VITA Program; and (5) proactive communication of the progress, quality, success, and evolution of the VITA Program to internal and external stakeholders. Because of the complexity of the VITA Program and in

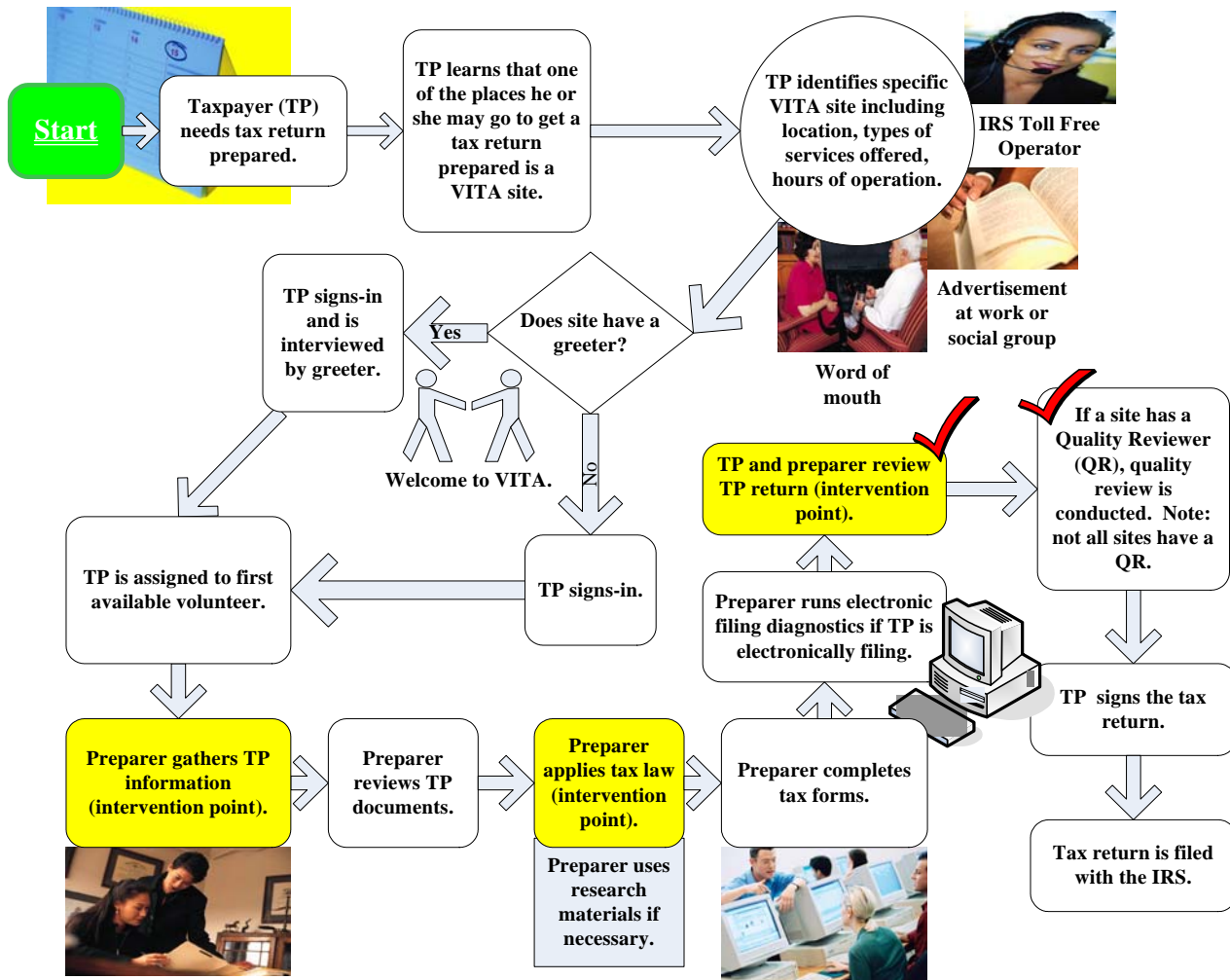
⁷ Not all tax law topics included in this follow-up review were included in the prior audit; therefore, they are not included in this comparison (see Figure 7 for a complete listing of tax topics addressed in this review).



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appreciation of all stakeholders' capacities to respond to the recommendations in the plan, the plan calls for a multiyear approach.

Figure 4: VITA Program Process (Mapped by the Quality Team)



Source: Compilation of information obtained from the SPEC function.

In addition, to provide an opportunity for the SPEC function and its VITA Program partners to maintain continuous communications concerning the VITA Program, the Quality Team hosts weekly SPEC function and partner conference calls. These calls serve as a forum for participants to share concerns and work together as a group to identify solutions to any problems surfaced, discuss development of best practices for Program-wide implementation, and identify product improvement opportunities.



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- **An improved system is in place to monitor VITA Program quality indicators.** The SPEC function's implementation of its upgraded "Volunteer Site Monitoring Tool" provides management and other stakeholders with new broad capabilities for overseeing numerous VITA Program quality and production indicators. The information contained on this system is updated weekly to ensure management information reports generated by the system provide current perspective concerning activities of the Program. Reports can be generated by Area Office, Territory,⁸ partner, and national partner levels and by a specific VITA site if necessary. As a result, SPEC function management is able to rely on the system to monitor the VITA Program and make informed tactical adjustments as deemed necessary at any point during the filing season.
- **Volunteer Quality Alerts are issued to proactively address emerging issues affecting the quality of tax return preparation.** Throughout the 2005 Filing Season, in response to emerging trends relating to the quality of tax returns being prepared, the SPEC function and its partners developed and issued 11 Volunteer Quality Alerts. See Appendix V for a list of the 11 Quality Alerts with a brief description of the topic covered in each Alert. These Alerts bring to the VITA Program volunteer community's attention certain tax issues that may adversely affect the accuracy of tax returns. They also provide IRS management with a vehicle to immediately address issues brought to their attention by the TIGTA.

For example, TIGTA auditors identified that VITA volunteers were not always taking into account all information contained on the Form W-2 auditors presented, which included an amount contributed to retirement savings. As a result, VITA volunteers did not always correctly claim the Retirement Savings Contributions Credit on the tax return. When this was brought to SPEC function management's attention, the Quality Team immediately developed and distributed Quality Alert 2005-5, "Form W-2 Wage and Tax Statement," reminding VITA volunteers that every entry on Form W-2 is critical in completing an accurate tax return and that they should consider it for entry to the tax return. Figure 5 provides a copy of Volunteer Quality Alert 2005-5.

⁸ The SPEC function is organized into 4 Area Offices and 42 Territories.



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Figure 5: Volunteer Quality Alert 2005-05 – Form W-2 Wage and Tax Statement

Volunteer Quality Alert 2005-05 – Form W-2 Wage and Tax Statement

You may use this document as a job aid when assisting taxpayers who have certain benefits or adjustments.

Form W-2 - Box 1 and 2 – What’s Next?

General Rule: Forms W-2 are full of information about the income and benefits, both taxable and non-taxable, received by taxpayers. The income statements contain a great deal more than just Box 1 – Taxable Income and Box 2 – Federal Tax Withholding.

Challenge: Use the income statements in combination with the intake sheet and a strong interview as you prepare returns. Every entry on Form W-2 is critical in completing an accurate return.

When preparing a tax return electronically – **KEY WHAT YOU SEE!**

When preparing a paper return – **CONSIDER EVERY W-2 ENTRY!**

a Control number 458		OMB No. 1545-0008	
b Employer identification number 58-0000000		1 Wages, tips, other compensation 20,000.00	2 Federal income tax withheld \$2,150.00
c Employer's name, address, and ZIP code ABC Minit Mart 111 Main Anytown, USA 30444		3 Social security wages \$21,522.00	4 Social security tax withheld \$1,240.00
		5 Medicare wages and tips \$21,522.00	6 Medicare tax withheld \$290.00
		7 Social security tips	8 Allocated tips
		9 Advance EIC payment \$730.00	10 Dependent care benefits \$1,000.00
d Employee's social security number 123-45-6780		11 Nonqualified plans	
e Employee's first name and initial Last name Doe, Mary Jane 123 Main Anytown, USA 30444		12 Code D: \$522.00	
		13 Statutory employee <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
f Employee's address and ZIP code		14 Other	
15 State Employer's state ID number	16 State wages, tips, etc. \$21,522.00	17 State income tax \$385.00	18 Local wages, tips, etc.
		19 Local income tax	20 Locality name

Advance EIC Payment: When using e-file, this amount will automatically fill in on line 60 of Form 1040 or line 37 of Form 1040A. If preparing a paper return, remember to include the amount of the **Advance EIC Payment**.

Dependent Care Benefits: When using e-file, an amount in this box will automatically complete Page 2 of **Form 2441, Child and Dependent Care Expenses**. If preparing a paper return, remember to calculate.

Box 12 Code & Amount: When using e-file, an amount in this box with code D and G will automatically generate a **Form 8880, Credit for Qualified Retirement Savings Contributions**, if the taxpayer meets the age and income requirements. If preparing a paper return, you must calculate the **Form 8880**.

Training refresher, Volunteers can refer to:

- Publication 678, The Volunteer Assistor's Guide/Student Text, Lesson 3, Income, or
- Publication 1155, Instructor's Guide, Lesson 3, Income, or
- Publication 4012, Volunteer Resource Guide, or
- Publication 17, Your Federal Income Tax, Part 2, Chapter 6, or call The VITA Hotline at 1-800-829-8482.

Source: IRS public Internet site, IRS.gov.



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Volunteer Quality Alerts may not be reaching all volunteers. Whether these valuable communiqués reached all frontline VITA volunteers remains unanswered because there is no system to ensure all VITA sites and volunteers are receiving the Quality Alerts. After the Quality Alerts were issued, our auditors asked VITA volunteers at 18 VITA sites if the site had received the Alerts; 6 (33 percent) of the 18 VITA sites had not.

Recommendation

Recommendation 1: The Commissioner, W&I Division, should develop a process to ensure Quality Alerts reach all VITA volunteers.

Management's Response: The SPEC function will educate partners and site coordinators at site coordinator meetings on the Quality Alerts and will conduct random checks at the Territory level to determine if volunteers received the Quality Alerts. As part of the site review process, tax specialists will determine if Quality Alerts were made available to all volunteers.

Challenges Remain for an Effective Quality Assurance Process

Key controls implemented by the SPEC function to help ensure the accuracy of tax returns prepared by VITA volunteers were not consistently followed. As a result, 23 (66 percent) of the 35 tax returns prepared were incorrect. If 18 (78 percent) of the 23 incorrectly prepared tax returns had been filed, the IRS would have incorrectly refunded \$17,818. Alternatively, if the remaining 5 (22 percent) incorrectly prepared tax returns had been filed, the taxpayers would not have received \$3,215 in tax refunds to which they were entitled.⁹ Although a comprehensive quality assurance process was proposed in response to the prior TIGTA review, a number of obstacles, including stakeholder concerns about the intrusiveness of an observation process and data collection restrictions, have prevented the implementation of an effective process.

Keys controls outlined in the “Integrated Return Preparation Process Model” were not consistently followed

Central to the SPEC function’s strategy for ensuring the accuracy of tax returns completed by VITA volunteers is its “Integrated Return Preparation Process Model.” This Model outlines a step-by-step method for preparing accurate tax returns at VITA sites. The Model’s premise is that, to complete accurate tax returns, VITA Program volunteer preparers must ask certain

⁹ See Appendix VI for details.



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questions about the taxpayers and, if relevant, their families. The Model reinforces the importance of completing a Tax Preparation Information Sheet (Form 13614)¹⁰ and conducting a probing interview using the *Volunteer Resource Guide* (Publication 4012).

The Model also outlines the need to ensure a quality review of the completed tax return is conducted. To measure the quality of the tax return, the quality review process is designed to ensure calculations and the name(s) and Social Security Number(s) of the taxpayer(s), including a spouse and any dependents, are correct. Additionally, it requires a validation to determine whether sufficient questions were asked to establish the taxpayer's filing status and whether income from all Forms W-2 and other income documents is reported on the tax return.

For the 35 tax returns prepared during this review, key controls outlined in the Model were not consistently followed. For example:

- **Intake sheets containing critical questions were not always used.** The SPEC function developed the Form 13614, which contains a standardized list of required intake questions to guide VITA volunteers in asking taxpayers basic questions about themselves. The purpose of the intake sheet is to open dialogue between the taxpayer and the VITA volunteer, providing the opportunity for the volunteer to get acquainted with the taxpayer's unique set of facts. Each VITA site is required to use the Form 13614. However, VITA sites were allowed to create their own intake sheet as long as the questions included those listed on the Form 13614. For the 35 tax returns prepared:
 - Five (14 percent) of 35 VITA sites did not use an intake sheet at all.
 - Eight (27 percent) of the 30 VITA sites that used an intake sheet did not include all the required critical questions on the intake sheet.
- **VITA volunteers did not always use the information auditors provided on the intake sheets.** Although the intake sheet captures information that, if used correctly, provides the VITA volunteer with sufficient information to correctly determine eligibility for many tax issues (Dependent Care Credit, income, etc.), volunteers did not always use this information to prepare the tax returns. For example, on Form 13614:
 - A question asks, "Did you pay for childcare [sic] during the tax year that allowed you to work?" For 13 tax returns, auditors checked that they had child care expenses. However, for 7 (54 percent) of the 13 tax returns, the VITA volunteers did not address the child care expense issue and, as a result, did not claim a Dependent Care Credit on the tax returns.
 - A question asks, "Did you or your spouse have income during the tax year that was not reported on a [Form] W-2?" For 13 tax returns, auditors checked that they had other

¹⁰ See Appendix VII for a copy of Form 13614. The IRS refers to Form 13614 as the "Interview and Intake Sheet" in its response to the draft report (Appendix IX).



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income. However, for 4 (31 percent) of the 13 tax returns, the VITA volunteers did not address the other income issue and, as a result, did not include the interest income on the tax returns.

We shared this information with SPEC function management, and they immediately developed and issued Quality Alert 2005-3, "Asking the Right Questions," to remind volunteers of the importance of effectively using the information provided by taxpayers on Forms 13614.

Opportunities exist to improve the intake sheet by including additional critical questions. If used correctly, the intake sheet is an effective tool for ensuring critical taxpayer information is obtained and applied during the interview process. The addition of the following two questions may further assist VITA volunteers in obtaining facts relative to a taxpayer's marital status and ability to claim dependents, if applicable.

1. Are you divorced? The intake sheet includes the question "Were you legally married as of December 31st?"
2. Can anyone else claim the children as dependents? The intake sheet includes the question, "Can someone else claim your spouse on their tax return?"

Had either of these questions been included, VITA volunteers might have asked if the auditors had signed an agreement during divorce proceedings granting the ex-spouse the right to claim the child as a dependent.

- **VITA volunteers did not always use Publication 4012 when making tax determinations.** In 31 (89 percent) of 35 VITA sites where a tax return was prepared, auditors observed that the newly revised Publication 4012 was available to VITA volunteers. However, only 10 (29 percent) of the 35 VITA volunteers referred to it when preparing the tax returns.


Figure 6 shows an excerpt from Publication 4012 that illustrates the importance of using the guide to ensure VITA volunteers have all the information needed to accurately prepare tax returns. Had VITA volunteers used Publication 4012 when preparing tax returns for auditors using Scenario 1, the volunteers would most likely have determined the auditors were not entitled to claim the child. Scenario 1 presented the auditor as a divorced taxpayer who had signed a Form 8332 granting the ex-spouse the right to claim the 7-year-old child as a dependent. If referred to, a table in Publication 4012 would have led VITA volunteers through a series of questions concluding that the auditors were not entitled to claim the child. Only 5 (28 percent) of 18 tax returns prepared involving this scenario were accurate with respect to the dependent exemption.



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Figure 6: Interview Tips for Determining Dependent Eligibility

VOLUNTEER RESOURCE GUIDE



Auditors used a scenario that did involve Form 8332.

If asked by the volunteer following this table, the auditor would indicate this and the volunteer would correctly conclude that the auditor was not entitled to claim the dependent in question

TABLE 2 Test for Support of Child by Divorced or Separated Taxpayers	
Step 6: Were the parents of the child ever married?	If YES, go to Step 7. If NO, use TABLE 1, Test for Support by Taxpayers Not Divorced or Separated. Go to Step 1.
Step 7: Were the parents divorced or legally separated, separated under a written agreement, or did they live apart the last 6 months of the year?	If YES, go to Step 8. If NO, use TABLE 1, Test for Support by Taxpayers Not Divorced or Separated. Go to Step 1.
Step 8: Did one or both parents provide more than half the child's total support?	If YES, go to Step 9. If NO, use TABLE 1, Test for Support by Taxpayers Not Divorced or Separated. Go to Step 1.
Step 9: Did one or both parents have custody of the child for more than half the calendar year?	If YES, go to Step 10. If NO, use TABLE 1, Test for Support by Taxpayers Not Divorced or Separated. Go to Step 1.
Step 10: Did you have custody of the child for more than half the calendar year?	If YES, go to Step 11. If NO, go to Step 12.
Step 11: Did you sign a Form 8332 or similar statement releasing the exemption?	If YES, STOP. You cannot claim this person as a dependent. If NO, the person meets the Support Test and qualifies as a dependent since all 5 tests are either met or do not apply.
Step 12: Did the custodial parent provide you with a signed Form 8332 or similar statement releasing the exemption?	If YES, the person meets the Support Test and qualifies as a dependent since all 5 tests are either met or do not apply. If NO, STOP. You cannot claim this person as a dependent.

Source: Publication 4012 (for use in preparing Tax Year 2004 returns).

- VITA volunteers did not always ensure completed tax returns were subjected to the required quality review process.** For 14 (40 percent) of 35 tax returns prepared at the VITA sites, there was no onsite quality review completed. When VITA volunteers completed the tax returns, they did not review the tax returns with the taxpayers and/or the tax returns were not reviewed by other volunteers. Additionally, checklists developed to guide and assist VITA volunteers in quality reviewing the tax returns were not used. See Appendix VIII for an example of the Quality Review Checklist.

The two different TIGTA scenarios portray tax law issues that VITA volunteers commonly handle. Figure 7 shows VITA volunteers did not always determine the correct income, filing status, tax credits, and dependent exemptions.



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Figure 7: Accuracy of Eligibility Determinations

	Eligibility Assessment			
	Scenario # 1		Scenario # 2	
	18 Tax Returns Prepared (0 Tax Returns Prepared Accurately)		17 Tax Returns Prepared (12 Tax Returns Prepared Accurately)	
Tax Law Topic	Number of Tax Returns on Which Tax Eligibility Determination Is Incorrect	Percentage Incorrect	Number of Tax Returns on Which Tax Eligibility Determination Is Incorrect	Percentage Incorrect
CTC	12	67%	0	0%
Dependent Care Credit	11	61%	Not Included	NA
Dependency Exemption	13	72%	4	24%
EITC	8	44%	1	6%
Filing Status	4	22%	4	24%
Income	6	33%	Not Included	NA
Retirement Savings Contributions Credit	10	56%	Not Included	NA

Taxpayer Key Facts:

- Lives with his/her 7- year-old child.
- Contributed to a 401(k) plan.
- Received an Interest Statement (Form 1099-INT).
- As part of divorce, taxpayer signed a Release of Claim to Exemption for Child of Divorced or Separated Parents (Form 8332).
- Had dependent care expenses.

Taxpayer Key Facts:

- Single.
- Two children.
- Children live with the other parent during the school year.

Source: Tax returns prepared for TIGTA auditors by VITA volunteers during the 2005 Filing Season. NA = not applicable.



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Incorrectly prepared tax returns not only increase the risk of taxpayers receiving erroneous payments, they also may create additional burden on taxpayers if the IRS later finds potential errors on the tax returns. These taxpayers may later be required to face the demands of an IRS audit of their tax returns due to potential errors identified on the returns.

VITA site information used by IRS toll-free telephone program assistors was not always accurate

For 29 (45 percent) of 64 VITA sites tested, the site information used by IRS toll-free telephone program assistors to answer taxpayer calls regarding the locations of and/or services offered by VITA sites was inaccurate. Testing included validation of each VITA site's telephone number, address, and dates/hours of operation for which tax return preparation service is offered.

SPEC function guidelines require field managers to verify, as part of filing season readiness plans and site reviews, that VITA site information is current and accurate so IRS toll-free telephone program assistors can direct a caller to the right VITA site based on the caller's needs. Additionally, according to the *IRS Volunteer Coordinator's Handbook* (Publication 1084), by January 1st of each year, VITA site coordinators must complete a Site Information Sheet indicating the locations, days, and hours of operations for their respective sites and provide it to the appropriate SPEC function contact to ensure the database of information provided to IRS toll-free telephone program assistors is updated to accurately reflect VITA site information.

For 12 (41 percent) of 29 VITA sites for which the site information was inaccurate, the VITA site coordinator could not confirm receipt of the required Site Information Sheet. For the remaining 17 of 29 VITA sites, 4 had not informed the SPEC function of changes made to the information contained in the original Site Information Sheet. For the remaining 13 of 17 VITA sites, the information from the Site Information Sheet was either incorrectly updated or system limitations resulted in inaccurate or incomplete information being made available to toll-free telephone program assistors.

Based on 31,329 responses from taxpayers surveyed at various VITA sites during the 2005 Filing Season, only about 5.8 percent of the taxpayers indicated they contacted the IRS to learn about VITA sites.¹¹ The majority of taxpayers instead learned about the VITA Program from friends, relatives, employers, the media, the Internet, etc. However, for those taxpayers that rely on the IRS for VITA site information, inaccurate information can create significant burden. When we informed SPEC function management about the errors, they took immediate actions to

¹¹ This information was provided by the IRS based on a Customer Satisfaction Survey conducted at VITA sites during the January through April 2005.



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correct the information for the respective VITA sites to minimize the risk of incorrect VITA site information being made available to taxpayers.

In Fiscal Year 2005, the SPEC function faced obstacles implementing a comprehensive quality assurance process

During Fiscal Year 2005, the SPEC function proposed to implement a new, three-tier quality assurance process to assess the VITA Program's adherence to and effectiveness of quality standards and procedures. The quality assurance plans proposed:

- Three thousand site reviews. IRS employees visit VITA sites to determine if they have prescribed processes in place.
- One hundred shopping reviews. American Institute of Certified Public Accountants (AICPA) members pose as taxpayers using an invented scenario to have tax returns prepared by VITA volunteers.
- Six hundred direct observation reviews. IRS employees observe VITA volunteers preparing tax returns and measure compliance with procedures.

However, efforts to effectively implement all three tiers of this new quality assurance process were significantly hampered. Factors hindering the implementation of the quality assurance process included:

- **Lack of a system of records.** The IRS did not have a specifically assigned System of Records Notification in place alerting the public about the data it would be capturing as part of the site reviews. This is a lengthy legal requirement requiring the agency to disclose, through the Federal Register, specific information about the system, including (1) the name and location of the system; (2) the categories of individuals on whom records are maintained in the system; (3) each routine use of the records contained in the system, including the categories of users and the purpose of such use; and (4) the policies and practices of the agency regarding storage, access controls, retention, and disposal of the records. As a result, although VITA site reviews were conducted, the SPEC function was unable to record which site was reviewed, which prevented it from tracking specific VITA site review results and consequently eliminated the possibility of effectively following up the reviews with actions for improvement. However, to resolve this limitation, the Quality Team has drafted a comprehensive System of Records Notification, which is in the approval process.
- **Incomplete shopping reviews.** The number of completed shopping reviews to secure a neutral-party perspective on the tax return preparation process and the taxpayer qualitative experience did not meet expectations. Only 14 of the 100 reviews planned were actually performed. The anticipated level of participation never materialized. The timing of the training was a key factor that contributed to the smaller number of available shoppers.



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However, based on our discussion with the Director, AICPA, Tax Division, the AICPA is committed to expanding its involvement in the VITA Program quality assurance process during the 2006 Filing Season and beyond.

- **Discontinuance of observation reviews.** Observation reviews were discontinued as of February 1, 2005, with just 70 of the planned 600 reviews completed. This decision was based on growing stakeholder concerns that taxpayers may be deterred from having their tax returns prepared by VITA volunteers when they learned that IRS representatives might be overseeing and perhaps unfairly scrutinizing the preparation of their tax returns. The resulting sample size was too small to draw any strong conclusions regarding the quality of the VITA Program.

Without an effective quality assurance process, management lacks sufficient information to monitor VITA Program quality and properly manage corrective actions. Specifically, current limitations associated with the VITA Program quality assurance process have resulted in the lack of data needed to steer efforts to update publications and forms and to improve VITA Program volunteer training for the 2006 Filing Season. Further, without an effective quality assurance process, the risk will continue that VITA volunteers will inappropriately apply the tax law, which may result in incorrectly prepared tax returns and significant losses to the Federal Government.

Recommendations

The Commissioner, W&I Division, should:

Recommendation 2: Revise the Form 13614 to include questions to determine whether 1) taxpayers are divorced and 2) anyone else can claim their children as dependents.

Management's Response: The SPEC function revised the Form 13614 to include questions to determine whether taxpayers are divorced and anyone else can claim their children. It will check for use of the Form 13614 during planned Volunteer Return Preparation Program Quality Improvement Plan and discretionary visits throughout the filing season.

Recommendation 3: Ensure Site Information Sheets are received from each participating VITA site and the information from the Sheets is accurately reflected in the information used by IRS toll-free telephone program assistants.

Management's Response: In Fiscal Year 2006, the SPEC function will require mandatory use of the newly designed SPEC Volunteer Site Information Sheet (Form 13715). Area Offices will ensure site accuracy by conducting at least 10 percent test calls to VITA appointment-only sites by March 1, 2006. In addition, the SPEC function will develop procedures for continuous updates by sharing the Form 13715



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electronically with site coordinators to provide real-time changes that may occur throughout the filing season.

Recommendation 4: Pursue methods to achieve the objectives for the quality assurance process planned for the 2005 Filing Season. These objectives included observation and site reviews and shopping visits.

Management's Response: The SPEC function is planning a three-tier approach to its Quality Improvement Program to include site reviews, shopping reviews, and tax return reviews. The tax return reviews will be in lieu of observation reviews because of stakeholder concerns and SPEC function management's belief that the observations did not yield valid data because individuals act differently when being observed.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether taxpayers receive quality service, including the accurate preparation of their tax returns, when visiting Volunteer Income Tax Assistance (VITA) sites to have tax returns prepared. We also assessed the ease with which taxpayers can locate VITA sites and determine the specific services offered and the Internal Revenue Service's (IRS) process for ensuring the overall quality of VITA Program operations.

Specifically, we:

- I. Identified the IRS' process for measuring the quality and accuracy of the VITA Program.
 - A. Determined actions taken in response to a prior Treasury Inspector General for Tax Administration (TIGTA) audit¹ to improve quality and accuracy.
 - B. Obtained and reviewed the IRS' response to Senate Appropriations Committee Report 108-342, detailing the IRS' proposed method for properly educating and training VITA volunteers to ensure tax returns prepared on the taxpayers' behalf are done correctly.
 - C. Identified key controls implemented to assist in ensuring tax returns are prepared accurately and information provided to taxpayers regarding the VITA site is accurate.
 - D. Obtained and reviewed internal guidance to identify key controls that assist the IRS in ensuring the accurate preparation of tax returns.
 - E. Obtained and reviewed guidance provided to VITA volunteers to identify key controls the VITA sites use to ensure the accurate preparation of tax returns.
- II. Determined if taxpayers are provided with accurate information as to the VITA sites' locations, hours of operation, and types of services provided.
 - A. Determined the process followed by the IRS to populate the VITA site listing and ensure the information contained remains accurate.
 - B. Confirmed the accuracy of the information contained on the listing provided to toll-free telephone program assistants for 64 VITA sites judgmentally selected from February 1 through April 14, 2005, covering all 4 Stakeholder Partnerships,

¹ *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).



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Education, and Communication function Area Offices.² The population of VITA sites is not fixed; VITA sites open and close throughout the filing season. Therefore, we could not determine the total population of VITA sites and could not do a statistical sample. Our sample of sites was judgmentally selected based on the sites' proximity to major cities and available resources on the dates of the actual visits.

- C. For the VITA site information provided to taxpayers determined to be incorrect, determined why and attempted to measure the potential effect on taxpayers.
- III. Determined if the VITA sites are accurately preparing tax returns based on facts provided by taxpayers.
- A. Obtained and analyzed an extract of Tax Year 2003 tax returns prepared at community-based VITA sites to identify characteristics of these taxpayers. This information was used as a basis for the scenarios used by TIGTA auditors. Tax Year 2003 data were used because they were the most current and complete data available.
 - B. Selected a judgmental sample of 36 VITA sites nationwide and attempted to have a tax return prepared. Sites were judgmentally selected in each of the four Stakeholder Partnerships, Education, and Communication Area Offices and included at least two States from each Area Office. Site selection was based on resources and the sites' proximity to major cities. See Appendix IV for a list of VITA sites visited.
 - C. Determined if the tax returns prepared by the VITA volunteers were correct. For the tax returns prepared incorrectly, we determined why and attempted to measure the potential effect on taxpayers and tax revenue.
- IV. Determined if VITA sites were operating as intended, including ensuring VITA volunteers are certified to prepare tax returns.
- A. Conducted VITA site reviews evaluating items included on the IRS Volunteer Return Preparation Program Site Reviews (Form 6729).
 - B. Compared VITA volunteers certified as reported to the IRS on Volunteer Assistance Summary Reports (Form 13206) to volunteers working at the VITA sites.
 - C. Confirmed if the 120 VITA volunteers involved in the preparation of tax returns on the days of our visits had passed the IRS-approved test for certification on minimum required training topics, including the "Basics" – income, adjustments to income and

² The SPEC function is organized into 4 Area Offices and 42 Territories.



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- tax computation, filing status, dependents, Earned Income Tax Credit, Child Tax Credit, and use of reference materials.
- D. Confirmed if the 120 VITA volunteers involved in the preparation of tax returns on the days of our visits had signed a Standards of Conduct Volunteer Return Preparation Program (Form 13615).
 - E. For the VITA sites not operating as intended, attempted to determine why as well as the effect on taxpayers.



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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
Deputy Commissioner, Wage and Investment Division SE:W
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Acting Director, Strategy and Finance, Wage and Investment Division SE:W:S
Acting Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI
Acting 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 Management Controls OS:CFO:AR:M
Audit Liaison: Acting Senior Operations Advisor, Wage and Investment Division SE:W:S



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Appendix IV

Sites Reviewed and Volume of Tax Returns Prepared During the 2005 Filing Season

Volunteer Income Tax Assistance		Volume of Tax Returns Prepared	Volume of e-file Tax Returns Prepared	Volume of Paper Tax Returns Prepared	Volunteer Income Tax Assistance		Volume of Tax Returns Prepared	Volume of e-file Tax Returns Prepared	Volume of Paper Tax Returns Prepared
City	State				City	State			
Phoenix	Arizona	2,300	2,224	76	Springfield	Massachusetts	993	889	104
Scottsdale	Arizona	215	195	20	Worcester	Massachusetts	111	110	1
Tucson	Arizona	326	296	30	Brooklyn	New York	4,333	3,935	398
Chula Vista	California	258	254	4	New York	New York	1	0	1
Long Beach	California	50	25	25	New York	New York	386	376	10
Los Angeles	California	50	50	0	Greensboro	North Carolina	183	157	26
Fort Lauderdale	Florida	329	313	16	Jamestown	North Carolina	312	300	12
Miami	Florida	250	227	23	Winston-Salem	North Carolina	178	164	14
West Palm Beach	Florida	247	235	12	Columbus	Ohio	51	0	51
Macon	Georgia	73	73	0	Dayton	Ohio	42	42	0
Marietta	Georgia	91	89	2	Springfield	Ohio	737	703	34
Savannah	Georgia	78	76	2	Allentown	Pennsylvania	177	169	8
Chicago	Illinois	1,745	1,300	445	Lancaster	Pennsylvania	94	82	12
Highland Park	Illinois	49	0	49	Philadelphia	Pennsylvania	446	433	13
Kankakee	Illinois	745	594	151	Providence	Rhode Island	207	193	14
Hammond	Louisiana	159	157	2	Austin	Texas	1,938	1,475	463
New Orleans	Louisiana	74	72	2	San Antonio	Texas	472	439	33
Saint Martinville	Louisiana	14	0	14	San Marcos	Texas	23	23	0

Source: Volunteer Income Tax Assistance (VITA) Program data provided by the Internal Revenue Service for the VITA sites included in our review. The term "e-file" means electronic filing.

No VITA site identification information is provided, only the State and city of each VITA site visited. The volume of tax returns prepared is for the 2005 Filing Season¹ through May 21, 2005, for the specific VITA site visited.

¹ The 2005 Filing Season relates to the processing of Tax Year 2004 tax returns. The filing season is the period from January through mid-April when most individual income tax returns are filed.



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Appendix V

Volunteer Quality Alerts Issued During the 2005 Filing Season

Quality Alert Number	Date of Issuance	Title	Objective of Quality Alert
2005-1 **	01/14/2005	Grandniece/Grandnephew	To ensure an accurate determination as to whether a grandniece/grandnephew is considered a qualifying person for the Head of Household filing status or a qualifying child for the Earned Income Tax Credit and/or the Child Tax Credit.
2005-2	02/27/2005	Tax Treatment Cash Contributions for Tsunami Relief	To ensure accurate tax treatment of Tsunami Relief contributions.
2005-3 **	02/04/2005	Asking the Right Questions	To obtain the information necessary to assist customers in preparing and filing accurate tax returns. To confirm the data received are complete. To use a strong quality review process to assure the information is accurately included and reflected on the customer's tax return. To ensure the proper use of intake information sheet information, proper use of reference guide material, and quality review of each tax return prepared.
2005-4 **	02/15/2005	Filing & Marital Status - The Tax Connection	To ensure volunteers correctly determine filing status (e.g., Single, Head of Household) by not making assumptions but instead conduct a quality interview and use reference materials to guide determinations.
2005-5 **	03/15/2005	Form W-2 Wage and Tax Statement	To ensure volunteers use the income statements in combination with the intake sheet and a strong interview as tax returns are prepared, consider every entry on the Wage and Tax Statement (Form W-2) as critical in completing an accurate tax return, and consider what they see and enter what they see.

¹ The 2005 Filing Season relates to the processing of Tax Year 2004 tax returns. The filing season is the period from January through mid-April when most individual income tax returns are filed.



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Quality Alert Number	Date of Issuance	Title	Objective of Quality Alert
2005-6	03/14/2005	Top 3 e-file Rejects	To avoid the top three causes for electronically filed (<i>e-file</i>) tax returns to reject from Internal Revenue Service processing – ensure information from Form W-2 is accurately entered on a tax return; and ensure Social Security Numbers, birth dates, and names of qualifying children are accurate on Earned Income Credit (Schedule EIC).
2005-7 **	03/07/2005	Other Income	To ensure accurate treatment of interest, dividends, and gambling income through the use of the quality review of the tax return. To ensure volunteers review intake/taxpayer information sheet to determine if other income is indicated by the taxpayer.
2005-8 **	03/11/2005	Child & Dependent Care Credit	To ensure volunteers correctly determine the Child and Dependent Care Credit by ensuring they prepare a Child and Dependent Care Expenses (Form 2441), including boxes on the Main Information screen, if using the Tax Wise tax return preparation computer application.
2005-9 **	03/17/2005	Adjustments	To ensure volunteers determine whether the taxpayers are eligible for specific adjustments. Adjustments are subtractions from total income. Total income minus adjustments results in Adjusted Gross Income, an important number for tax purposes. Adjustments generally covered in the Volunteer Income Tax Assistance (VITA) Program include Educator Expenses, Individual Retirement Arrangements, Student Loan Interest, Tuition and Fees, One-Half of Self-Employment Tax, Penalty on Early Withdrawal of Savings, and Alimony.
2005-10	04/06/2005	Form 1098-T [Tuition Statement]	To ensure volunteers correctly determine education-related tax benefits.
2005-11	04/08/2005	Post Filing Season Reminders	To close the VITA Program site while maintaining taxpayer confidentiality and maximizing remaining resources.

Source: Internal Revenue Service public Internet site (*IRS.gov*) and the Stakeholder Partnerships, Education, and Communication function.

** Indicates the issuance of the Quality Alerts was due to information provided to the Stakeholder Partnerships, Education, and Communication function by the Treasury Inspector General for Tax Administration.



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Appendix VI

Results of Tax Returns Incorrectly Prepared at Volunteer Income Tax Assistance Sites

Volunteer Income Tax Assistance (VITA) Sites Visited	VITA Site Refund	Correct Refund	Refund Understated	Refund Overstated
Tucson, Arizona	\$3,130	\$1,665		\$1,465
Chula Vista, California	\$2,781	\$1,665		\$1,116
Long Beach, California	\$477	\$251		\$226
Fort Lauderdale, Florida	\$2,582	\$1,665		\$917
Miami, Florida	\$2,699	\$1,665		\$1,034
West Palm Beach, Florida	\$477	\$251		\$226
Marietta, Georgia	\$477	\$251		\$226
Savannah, Georgia	\$2,781	\$1,665		\$1,116
Highland Park, Illinois	\$4,470	\$251		\$4,219
Kankakee, Illinois	\$1,285	\$1,665	-\$380	
Hammond, Louisiana	\$477	\$251		\$226
Saint Martinville, Louisiana	\$2,699	\$1,665		\$1,034
Worcester, Massachusetts	\$3,079	\$1,665		\$1,414
Brooklyn, New York	\$539	\$1,665	-\$1,126	
New York, New York	\$1,956	\$1,665		\$291
Greensboro, North Carolina	\$1,117	\$1,665	-\$548	
Jamestown, North Carolina	\$853	\$1,665	-\$812	
Dayton, Ohio	\$2,730	\$1,665		\$1,065
Springfield, Ohio	\$1,821	\$1,665		\$156
Allentown, Pennsylvania	\$3,130	\$1,665		\$1,465
Philadelphia, Pennsylvania	\$2,750	\$1,665		\$1,085
San Antonio, Texas	\$1,316	\$1,665	-\$349	
San Marcos, Texas	\$2,202	\$1,665		\$537
Totals:			-\$3,215	\$17,818

Source: Anonymous visits performed by Treasury Inspector General for Tax Administration auditors.



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Appendix VII

Tax Preparation Information Sheet

TAX PREPARATION INFORMATION SHEET

You will need:

a) Valid Picture I.D.	c) Social Security Card or	
b) Copies of ALL W-2, 1099 Forms and proof of other income received by you and your spouse	Tax Identification Number (TIN) Card (i.e. ITIN Card or Letter, etc.) for you, your spouse and any others shown on the tax return	

YOUR INFORMATION:
 First Name _____ M.I. _____ Last Name _____ Social Security No. / ITIN _____ - -

SPOUSE INFORMATION:
 First Name _____ M.I. _____ Last Name _____ Social Security No. / ITIN _____ - -

ADDRESS: _____ Street _____ Apt. _____ City _____ State _____ ZIP _____

TELEPHONE NUMBERS:

	YOU	SPOUSE
Home	_____	_____
Business	_____	_____
Cell	_____	_____

DATE OF BIRTH: _____ / _____ / _____

OCCUPATION AND NUMBER OF JOBS

Your _____

Spouse _____

MARITAL STATUS:
 Were you legally married as of December 31st? YES NO
 If so, were you living with your spouse as of December 31st? YES NO
 Did your spouse die within the last 2 years? If yes, date of death _____ YES NO
Can someone else claim you or your spouse as a dependent on their tax return? YES NO

FAMILY / DEPENDENT INFORMATION – Do not include yourself or your spouse.
 Please list all persons who lived in your home and anyone living outside your home that you supported during the tax year.

Name	Birth Date	Social Security Number or ITIN	Relationship	Months person lived with you in 2004	Did you provide more than 50% support for this person in 2004

Did you or your spouse have income during the tax year that was not reported on a W2? YES NO

Did you receive Social Security payments during the tax year? YES NO

Did you receive unemployment payments during the tax year? YES NO

Did you pay for childcare during the tax year that allowed you to work? YES NO

If yes, did you bring the address and tax identification number for the provider? YES NO

Did you or anyone in your family attend college or vocational school during the tax year? YES NO

Did you or anyone in your family pay student loan interest? YES NO

Did you own your own home during the tax year? YES NO

Have you ever had the Earned Income Credit disallowed by the IRS? YES NO

Do you want to use Direct Deposit to a savings or checking account? YES NO

If so, did you bring the account number and the routing number of the financial institution? YES NO

Did you bring a copy of your prior year's tax return? YES NO

Please indicate below whether we may use the information contained on this form to assist in resolving problems in the event return processing problems occur. By signing this document and indicating your agreement below, you will allow us to retain this form so that general information such as employer/taxpayer address, identification numbers, birth dates and names can be verified if return processing problems occur. The information retained will not be shared with any unauthorized persons and will not be sold, given away, or used for commercial purposes. This information will be properly disposed of when no longer needed and retained no longer than December 31 of the current tax year.

Can we retain the information on this Form to improve/help with the processing of your tax return? YES NO

Your signature _____ Spouse signature _____

If you are not filing your return electronically (i.e. you will mail your return), after your tax return has been completed, attach this completed form to your copy of your tax return.

I understand that this is a free service by volunteers. I will be patient and treat volunteers with courtesy and respect. I agree to provide all information necessary to complete an accurate tax return. I have reviewed the information contained in this document and agree that all the information is complete and correct.

Form 13614 Page 2 (Rev. 11-2004) Catalog Number 38836A Department of the Treasury – Internal Revenue Service

Source: The Stakeholder Partnerships, Education, and Communication function.



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Appendix VIII

Quality Review Checklist

Form 8158 (Rev. November 2004)	Department of the Treasury - Internal Revenue Service Quality Review Checklist	
<p>This checklist should be completed by the volunteer assistor with the customer after the return is completed.</p>		
<p>This checklist is also found on Publication 730, Important Tax Records Envelope.</p>		
<p>To help us measure the quality of tax returns, please take a few minutes to review each item below. Please check each appropriate box as you verify an item or leave it blank if the item does not apply to the tax return. If items are incorrect or incomplete please make corrections to the return before the customer leaves the site.</p>		
<ul style="list-style-type: none"><input type="checkbox"/> Is the name and Social Security number of the taxpayer(s), including a spouse and any dependents, correct?<input type="checkbox"/> Is the address correct?<input type="checkbox"/> Is the Presidential Election Campaign box checked?<input type="checkbox"/> Was the taxpayer's filing status validated? Were enough questions asked to correctly determine the taxpayer's filing status?<input type="checkbox"/> Is the income from all taxable sources reported and transferred from all Forms W-2 and other income documents?<input type="checkbox"/> Does the tax withheld agree with Forms W-2 and other source documents?<input type="checkbox"/> For refund returns, was the Direct Deposit information correct?<input type="checkbox"/> For balance due returns, were payment instructions received?<input type="checkbox"/> If applicable, are Forms 8453 signed?<input type="checkbox"/> Was the select PIN information provided?<input type="checkbox"/> Are copies of all Forms W-2 attached and totaled to the return?<input type="checkbox"/> Does the total income on the return include all income from Forms 1099?<input type="checkbox"/> Is the Site Identification Number entered on the tax return? This number should begin with an "S."<input type="checkbox"/> Did the Taxpayer(s) sign the return?		
Catalog Number 51027D	Form 8158 (Rev. 11-2004)	

Source: *The Stakeholder Partnerships, Education, and Communication function.*



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Appendix IX

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
OCT 04 2005

SEP 30 2005

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *for* Richard J. Morgante *Pamela G. Watson*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – 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
(Audit # 200540002)

I reviewed your subject draft report and agree with your findings and recommendations. As stated in your report, this audit is a follow-up to a prior Treasury Inspector General for Tax Administration review in which you reported Volunteer Income Tax Assistance (VITA) volunteers did not always correctly prepare tax returns. I am pleased that the results of this review indicate significant improvements have been made in the oversight of the VITA program.

I agree that the VITA program plays an increasingly important role in improving taxpayer service and facilitating participation in the tax system. As your report suggests, VITA volunteers are critical in providing no-cost tax return filing assistance to underserved taxpayers, including low-income, elderly, disabled, and taxpayers with limited English proficiency. I appreciate your continued recognition of the immense challenges that VITA volunteers face in preparing accurate tax returns, particularly considering the complexity of the tax laws and the often complicated family situations. It is important we recognize and commend the 62,000 volunteers who, through their dedicated efforts, provided tax return filing assistance to more than 2.1 million underserved taxpayers during the 2005 Filing Season.

As your report acknowledges, the IRS Stakeholder Partnerships, Education and Communication (SPEC) organization established and implemented a number of initiatives and processes that have resulted in improvements to the VITA Program. While SPEC and its partners have always been committed to delivering VITA Program quality service and accuracy, we believe these improvements are commensurate with SPEC's increased ability to oversee and monitor the VITA



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Program, as well as SPEC's increased focus on quality. This includes requiring all VITA volunteers, regardless of their professional background and experience, to pass a tax law examination and sign a Standards of Conduct Volunteer Return Preparation Program (Form 13615). Additional improvements include providing enhanced training and tax reference materials, developing a multi-year quality business plan, and upgrading the management information system.

SPEC is also developing Quality Alerts and issuing them through its partners to VITA volunteers to proactively address emerging issues affecting the quality of tax return preparation at VITA sites. You mention in your report that the extent to which the Quality Alerts are reaching the front-line VITA volunteers remains unknown because there is no system in place to ensure that all VITA sites and VITA volunteers receive the Alerts. The distribution of Quality Alerts during the filing season faces significant logistical and time constraints. However, we consider the Quality Alert system to be an important component of the Quality Program. As such, we will perform random checks to ensure our partners are distributing the Alerts to as many VITA sites and volunteers as possible.

Although we have made tremendous progress, we agree challenges remain and our processes can be improved. We are optimistic the Quality Improvement Plan for Fiscal Year (FY) 2006 will drive further enhancements to the VITA Program. In accordance with this plan, SPEC will continue to conduct quality reviews using an integrated approach to determine whether key controls and operational steps are being consistently followed to ensure an accurate return. This will also encompass improving the return preparation interview and intake sheet procedures, updating the Volunteer Resource Guide (Publication 4012), improving the accuracy of site information, realigning volunteer training to focus on the complexity of returns prepared, and enhancing training on interview techniques.

Finally, SPEC will continue to work with its partners to achieve and sustain quality service and accuracy in the VITA Program. Attached please find our response to your specific recommendations. If you have any questions, please call me at (404) 338-7060, or members of your staff may contact Ellen M. Cimaglia, Director, Stakeholder Partnerships, Education and Communication, at (404) 338-7104.

Attachment



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Attachment

RECOMMENDATION 1

The Commissioner, W&I Division, should develop a process to ensure Quality Alerts reach all VITA volunteers.

CORRECTIVE ACTION

Beginning in the first quarter of FY 2006, SPEC will educate partners and site coordinators at site coordinator meetings. SPEC will recommend that partners share Quality Alerts during these periodic meetings to emphasize the importance of the Alerts in the tax preparation process. The Alerts will be marketed as a tool for site managers to ensure VITA volunteers are kept abreast of the most current procedures and tax law changes.

SPEC will utilize the Individual Marketing Service Quick Alert System and Universal Tax System for distribution of key information. We will also continue to post Quality Alerts on Tax Wise, the IRS approved software for the Volunteer Return Preparation Program (VRPP).

IMPLEMENTATION DATE

January 15, 2006

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

SPEC will conduct random checks at the territory level to determine if volunteers received the Quality Alerts. As part of the VRPP Site Review process, Tax Specialists will determine if Quality Alerts were made available to all volunteers.

RECOMMENDATION 2

The Commissioner, W&I Division, should revise the Form 13614 to include questions to determine whether 1) taxpayers are divorced and 2) anyone else can claim their children as dependents.

CORRECTIVE ACTION

SPEC revised Form 13614, Interview and Intake Sheet, to include a question to determine if taxpayers are divorced and whether anyone else can claim them as dependents. This revised form will be used for the FY 2006 filing season.

IMPLEMENTATION DATE:

Completed July 30, 2005



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RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

SPEC will check for use of Form 13614 during planned Volunteer Return Preparation Program Quality Improvement Plan and discretionary visits throughout the filing season.

RECOMMENDATION 3

The Commissioner, W&I Division, should ensure Site Information Sheets are received from each participating VITA site and the information from the sheets is accurately reflected in the information used by IRS toll-free telephone program assistors.

CORRECTIVE ACTION

In order to improve the accuracy of site information used by Toll-Free Assistors and ensure consistency in information provided to SPEC by partners in the VITA program, SPEC will implement the following procedures for FY 2006:

- a) Require mandatory use of the newly designed Form 13715, SPEC Volunteer Site Information Sheet. The purpose of this new product is to provide a consistent method of requesting and capturing accurate site information for input into the SPEC Taxpayer Assistance Reporting System (STARS), and then the Servicewide Electronic Research Program (SERP). Territories are required to input the forms into the STARS system, which will provide the updates to SERP for use by the Toll-Free Assistors. Form 13715 will be used by all territory offices in soliciting site information from partners for use by Toll Free Assistors, customer survey, and software ordering. Additional forms will be added and updates input as needed. Form 13715 will be retained at the territory level for reference.

We will place additional focus during the Volunteer/Partner training on the importance of this information and the timely completion of the form as well as subsequent updates.

- b) Area offices will ensure site accuracy by conducting at least 10% test calls to VITA appointment-only sites by March 1, 2006. The Areas will report the results in their February monthly briefing due March 15, 2006.
- c) SPEC will develop procedures for continuous updates by sharing the Form 13715 electronically with site coordinators to provide real-time changes that may occur throughout the filing season.

IMPLEMENTATION DATES

- a) February 15, 2006
- b) March 15, 2006
- c) April 15, 2006



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RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

SPEC will check for adherence to these actions during planned Volunteer Return Preparation Program Quality Improvement Process and discretionary visits throughout the filing season.

RECOMMENDATION 4

The Commissioner, W&I Division, should pursue methods to achieve the objectives for the quality assurance process planned for the 2005 Filing Season. These objectives included observation and site reviews, and shopping visits.

CORRECTIVE ACTION

During 2006, SPEC is planning a three-tiered approach to its Quality Improvement Program (site reviews, shopping reviews, and return reviews). SPEC has proactively promoted and marketed the Volunteer Return Preparation Program Quality Improvement Plan to its stakeholders, engaging them early and often via the development, testing, and implementation process.

SPEC will continue the site review process, which will allow us to measure compliance with the administrative and procedural requirements of volunteer site operation. For 2006, the System of Records Notification is expected to be approved, which will allow us to better track specific site review results.

We will conduct shopping reviews, using members of the American Institute of Certified Public Accountants (AICPA) who will pose as taxpayers and visit volunteer sites to have returns prepared according to a predefined script. These reviews will allow us to gauge the taxpayer's qualitative experience with the return preparation process. SPEC is working with the AICPA to ensure that a sufficient number of their members are available and that training occurs early enough to conduct the reviews. Although the number of planned shopping reviews is not yet finalized, SPEC anticipates conducting a minimum of 35 reviews for 2006.

Observation reviews were discontinued during the 2005 filing season and will not be used in 2006. As referenced in your report, this was due to stakeholder concerns over potential adverse reaction by taxpayers regarding IRS presence during the return preparation process. We also found evidence that these types of reviews may not yield the most valid data because of the so-called "Hawthorne Effect;" that is, individuals tend to behave differently when they know they are being reviewed in a research setting.

In lieu of observation reviews, SPEC is implementing a "return review" process during which a post-preparation review will be conducted of the tax return to determine if the tax law was applied properly. These reviews will be made in



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conjunction with the intake/interview sheets that taxpayers fill out upon entering the site. A statistically valid sample of approximately 2,475 return reviews will be conducted for 2006.

We believe that this three-tiered approach will yield significant data to allow us to measure the effectiveness of our quality improvement process.

IMPLEMENTATION DATE:

April 15, 2006

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

Reviewers will record results of the Quality Reviews on data collection instruments in a database developed and designed specifically by the Office of Program Evaluation and Risk Analysis for the SPEC Quality Review program. Reports to monitor quality improvement activities will be available weekly for analysis and corrective action.