



*Oversight and Accuracy of Tax Returns
Continue to Be Problems for the
Volunteer Income Tax Assistance Program*

August 31, 2006

Reference Number: 2006-40-125

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

Redaction Legend:

1 = Tax Return/Return Information

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

August 31, 2006

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM:

(for) Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program (Audit # 200640013)

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

Synopsis

Prior TIGTA reviews identified that tax returns were not correctly prepared by VITA volunteers because the volunteers did not gather key taxpayer information, did not refer to the Interview and Intake Sheet (Form 13614) or resource guides when preparing tax returns, and did not perform required quality reviews of completed tax returns. In addition, taxpayers could not rely on the IRS' information for VITA site locations, hours of operation, and scope of services because controls to ensure site information was accurate were not followed consistently. Furthermore,

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) and *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).



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although a comprehensive quality assurance process was proposed, obstacles prevented the implementation of an effective process.

The Stakeholder Partnerships, Education, and Communication (SPEC) function responsible for overseeing the IRS VITA Program continues to remain committed to providing top-quality service to all taxpayers, especially low- to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. However, although a comprehensive quality assurance process was proposed in response to one of the prior TIGTA reviews, significant barriers continue to diminish the SPEC function's ability to provide quality customer service at VITA sites and to measure the accuracy of prepared tax returns. These barriers include volunteers not adhering consistently to the SPEC function's processes for ensuring the accuracy of tax returns and the SPEC function's inability to implement an effective quality assurance process.

VITA accuracy rates have improved from 0 percent for the 2004 Filing Season to 39 percent for the 2006 Filing Season.

Specifically, the local intake sheets did not contain all required questions or were not prepared completely, volunteers did not use the information contained on the Forms 13614 and did not refer to resource guides, and required quality reviews of completed tax returns were not performed. As a result, 22 (61 percent) of the 36 tax returns prepared by VITA volunteers for TIGTA auditors were incorrect. If 4 (18 percent) of these incorrectly prepared tax returns had been filed, the taxpayers would not have received \$4,411 in tax refunds to which they were entitled. Alternatively, if the remaining 18 (82 percent) of the 22 incorrectly prepared tax returns had been filed, the IRS would have refunded \$31,828 incorrectly.

The IRS is moving away from providing tax preparation assistance at its Taxpayer Assistance Centers³ and is relying more on the VITA Program and its partners to provide this service. This presents significant challenges to the IRS and the SPEC function. The strengths of the VITA Program lie in its volunteers and partners. However, relying on volunteers to deliver the Program has inherent risks.

Volunteers and their partner organizations play a significant role in the IRS' tax return preparation program.

The SPEC function must balance the needs and desires of the volunteers with the IRS' mission and goals. As it strives to achieve its mission and goals and provide accountability for its operations, the SPEC function will have to continually assess and evaluate its internal control structure to ensure the VITA Program is providing accurate and reliable measurements, particularly measurements related to the accuracy of tax returns prepared.

Improvements are needed to ensure the VITA Program quality assurance program provides accurate measurements. The SPEC function has developed procedures and controls as part of its

³ Taxpayer Assistance Centers are operated by the IRS to provide walk-in service for taxpayers.



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Volunteer Return Preparation Program Quality Improvement Plan, and the Plan is in the early years of implementation. However, certain procedures are not being followed, and not all controls are effective for the Quality Improvement Plan to meet intended goals. Tax returns are not selected randomly for review, Territory managers are not in compliance with the directive to accompany tax specialists on reviews, and documentation supporting VITA Program accuracy measures is not maintained. The decision to not maintain documentation supporting return reviews was based largely out of consideration for maintaining effective partner relations.

Finally, VITA site information used by IRS toll-free telephone assistors was not always accurate. The VITA site information provided by IRS toll-free telephone assistors was inaccurate for 39 (33 percent) of 117 sites tested. In all 39 instances, the errors identified resulted from inaccurate manual transfer of information from the SPEC Volunteer Site Information Sheet (Form 13715) into the computerized system that makes the information available to IRS toll-free telephone assistors.

Recommendations

The Commissioner, Wage and Investment Division, should (1) require VITA sites to use the Form 13614 and require the Form to be prepared by the taxpayer to ensure it is prepared accurately; (2) ensure training continues to emphasize the need to use the various quality assurance tools, including using the Form 13614, referring to reference guides, and ensuring all tax returns are subjected to required quality review; (3) establish a process to ensure accuracy results are verifiable and validated (this process should ensure source documentation is maintained to support tax return reviews); and (4) develop a process to verify periodically whether VITA site information is entered accurately into the system used by toll-free telephone assistors.

Response

IRS management agreed with all of our recommendations but did not agree with one portion of our third recommendation. The SPEC function will continue to require each site to use Form 13614 or the partner's equivalent to prompt return preparers to ask questions necessary for accurate completion of the tax returns. The SPEC function will revise its tools (forms, training, and guidance documents) for both the return preparation and review processes based on findings from reviews, partner and employee feedback, and TIGTA results.

The SPEC function will establish an independent process to validate the accuracy reported and provide systemic improvements. The SPEC function will also implement shopping reviews that use scenarios representative of its customer base to assess the customer experience. Finally, the SPEC function will strengthen the process for selection of returns for review by SPEC function employees.



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However, the IRS did not agree with requiring partners to maintain source documents used by volunteers in preparing tax returns. The IRS believes this likely would erode effective IRS-partner relations by significantly increasing partner operational burden and costs, as well as require considerable new security infrastructure. The IRS also did not agree that reviews should be unannounced because announced visits promote collaborative ownership of quality service. The IRS believes there is no evidence that announced visits skew return selection or accuracy results any more or less than unannounced visits.

Lastly, the SPEC function will continue to use the validation process developed during the 2006 Filing Season⁴ and will enhance the process further by including the following:

- SPEC function management will be required to validate input in the SPEC Taxpayer Assistance Reporting System (STARS) site module and certify its accuracy.
- Form 13715 will require the initials of the employee inputting the data in the SPEC Taxpayer Assistance Reporting System and of management's concurrence with its accuracy.

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

Office of Audit Comment

In other IRS service areas such as the Taxpayer Assistance Center Program and the toll-free telephone operation, the IRS has recognized the importance of maintaining documentation to support quality and ensure the correct application of the tax law. Maintaining documentation for quality review purposes is a standard practice throughout the IRS and private industry. If documentation is not maintained, the IRS does not have the ability to validate its quality results.

In addition, the physical presence of a reviewer establishes an artificial situation for the volunteers and inhibits the accurate assessment of performance. The IRS has acknowledged that, when using direct observations in its Taxpayer Assistance Center Program and toll-free telephone operation, the results were skewed. Thus, the IRS has used and is using Contact Recording instead of direct observations to provide quality review results. Because Contact Recording is not currently a viable option for the VITA Program, the IRS should attempt to alleviate this limitation by not announcing visits, which allows the volunteers an opportunity to prepare and reinforce their controls and procedures.

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.

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



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Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program

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 focused continually 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 locations of VITA sites are 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*) targeted to underserved segments of individual taxpayers, including low- 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.

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.

The VITA Program includes sites operated in partnership with the military, community-based sites operated in partnership with various community-based organizations,² and sites operated by the Tax Counseling for the Elderly and the American Association of Retired Persons. Our audit included an assessment of tax returns prepared at community-based VITA sites only, which during the 2006 Filing Season³ were involved in the preparation of 698,302 tax returns.

For the 2006 Filing Season, taxpayers visiting community-based VITA sites to prepare and e-file their tax returns potentially saved a minimum of \$41 million (based on the lowest tax return preparation fee charged by leading tax preparation companies).

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 Some community-based VITA sites are co-located in buildings occupied by one or more IRS offices.

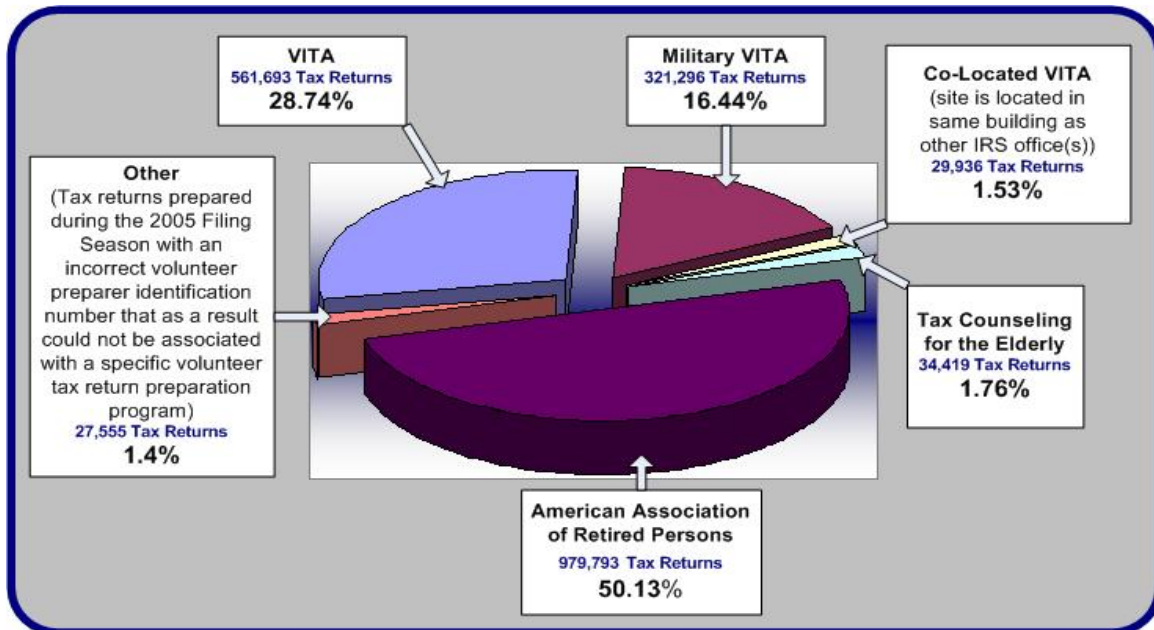
³ The 2006 Filing Season relates to the processing of Tax Year 2005 tax returns. The filing season is the period from January through mid-April when most individual income tax returns are filed.



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Figure 1 provides a breakdown of the Volunteer Return Preparation Program and volumes of tax returns prepared during the 2005 Filing Season.

Figure 1: Tax Year 2004 Tax Returns Prepared by Volunteer Return Preparation Program



Source: IRS management information system containing all Tax Year 2004 tax return data.

Prior audits identified improvements were needed to ensure tax returns are prepared correctly at VITA sites⁴

Prior Treasury Inspector General for Tax Administration (TIGTA) audits identified that tax returns were not prepared correctly by VITA volunteers because volunteers often did not gather key taxpayer information, did not refer to the Interview and Intake Sheet (Form 13614) or resource guides when preparing tax returns, and generally did not perform a quality review of the completed tax returns. Frontline VITA volunteers did not reliably receive Quality Alerts, which proactively address emerging issues affecting the quality of tax return preparation, due to the absence of an effective distribution process. In addition, taxpayers sometimes received inaccurate information about VITA site locations, hours of operation, and scope of services from the IRS because controls to ensure site information was accurate were not always followed.

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) and *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).



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Lastly, although a comprehensive quality assurance process was proposed, obstacles prevented the implementation of an effective quality assurance process.

In the most recent report, we recommended the IRS revise the Form 13614, develop a process to ensure Quality Alerts are distributed to all VITA volunteers, ensure SPEC Volunteer Site Information Sheets (Form 13715) are received from each VITA site and accurately processed for use by IRS toll-free telephone assistors, and pursue methods to achieve the planned objectives for the quality assurance process. In response, IRS management committed to revising the Form 13614,⁵ requiring use of the newly designed Form 13715 in an effort to improve on the accuracy of site information, developing procedures for continuous site information updates, and conducting calls to VITA appointment-only sites to test site information accuracy. Additionally, management noted its plan for a three-tier approach to its Volunteer Return Preparation Program Quality Improvement Plan would include site reviews, shopping reviews, and tax return reviews.

Scenarios used by auditors reflected characteristics of taxpayers that seek assistance from the VITA Program and included tax law topics that tested volunteers' use of tools designed to assist in the accurate preparation of tax returns

To ensure the scenarios used in this review reflected the characteristics of taxpayers that seek assistance from the VITA Program, we developed 2 scenarios based on the tax filing characteristics of the 591,629 individuals that used a community-based VITA site to have their Tax Year 2004 tax returns prepared.⁶ These taxpayers earned approximately \$14,734 annually, on average. Figure 2 provides additional key characteristics of these individuals.

⁵ Appendix VII provides a copy of the Form 13614.

⁶ This is the most recent complete year of data the IRS has for the VITA Program.



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**Figure 2: General Characteristics of the
Tax Year 2004 Tax Returns Prepared by the VITA Program**

| | | |
|---|---------------|---------------|
| Form 1040 - U.S. Individual Income Tax Return | | 77.33% |
| Form 1040EZ - Income Tax Return for Single and Joint Filers With No Dependents | | 9.33% |
| Form 1040A - U.S. Individual Income Tax Return | | 12.19% |
| Form 1040NR - U.S. Nonresident Alien Income Tax Return | | 1.03% |
| Form 1040NR-EZ - U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents | | 0.06% |
| Form 1040 PC - U.S. Individual Income Tax Return (PC) | | 0.06% |
| Form 1040PR - U.S. Self-Employment Tax Return-Puerto Rico | | 0.00% |
| Form 1040EZ-TEL - U.S. Individual Income Tax Return Telefile | | 0.00% |
| With Refund Due | | |
| | \$712,446,036 | 86.13% |
| With Balance Due | | |
| | \$44,980,078 | 10.52% |
| Breakeven | | |
| | \$0 | 3.35% |
| Single | | |
| Single | 328,943 | 55.60% |
| Head of Household | 135,366 | 22.88% |
| Married filing joint return | 114,969 | 19.43% |
| Widow(er) with dependent child | 334 | .06% |
| Married filing a separate return and spouse is not required to file | 110 | .02% |
| Married taxpayer filing a separate return, spouse required to file | 11,907 | 2.01% |
| Earned Income Tax* | | |
| | 211,187 | \$291,796,583 |
| Additional Child Tax | | |
| | 80,398 | \$71,727,139 |
| Child Tax* | | |
| | 76,754 | \$67,659,725 |
| Retirement Savings Contribution* | | |
| | 33,450 | \$5,503,046 |
| Education | | |
| | 28,858 | \$17,152,042 |
| Dependent Care* | | |
| | 16,793 | \$8,051,198 |
| Other (Adoption, Gas, and Health Coverage Tax) | | |
| | 197 | \$265,509 |
| Dependents | | |
| Tax Returns Prepared With One or More Dependent Exemptions | 200,926 | 33.96% |
| Tax Returns Prepared With No Dependent Exemptions | 390,703 | 66.04% |

* These four credits were included in the scenarios used by the TIGTA.

Source: IRS management information system containing all Tax Year 2004 tax return data.



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Further, our scenarios were designed to include tax law topics that assessed the volunteers' use of the tools the SPEC function designed to ensure accurate tax returns are prepared. The two scenarios included tax topics related to four of the top six credits taxpayers most often claimed on their Tax Year 2004 VITA-prepared tax returns (see those marked with an asterisk (*) in Figure 2). The dollar amount of these 4 credits represents over 52 percent (in excess of \$373 million) of the over \$712 million in refunds shown on the tax returns for these taxpayers. Taxpayers whose tax returns include 1 or more of the 4 credits in our scenarios accounted for 262,421 (44 percent) of the 591,629 tax returns prepared as based on our analysis of all Tax Year 2004 VITA prepared tax returns. The two scenarios developed for this review are as follows:

Scenario 1 – The taxpayer is divorced and lives with his or her 10-year-old child. The taxpayer had the same job working as a clerk throughout 2005. Wages reported on the Wage and Tax Statement (Form W-2) totaled \$28,383. The taxpayer was paid bimonthly and contributed to a 401(k) plan. The taxpayer received an Interest Income Statement (Form 1099-INT) totaling \$82.12. 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 \$275 a month for child support. The taxpayer had dependent care expenses totaling \$946.

An accurately prepared tax return would result in the taxpayer receiving a refund of \$730. The tax return preparer would have correctly determined the taxpayer's filing status was Head of Household and the dependency exemption could not be claimed because the taxpayer signed a Form 8332 releasing the exemption to the taxpayer's ex-spouse. Additionally, the taxpayer qualified for the Earned Income Tax Credit of \$408 but not the Child Tax Credit because the child could not be claimed as a dependent. The taxpayer would qualify for a Child and Dependent Care Credit of \$265 and a Retirement Savings Contribution Credit of \$71.

Scenario 2 – The taxpayer is single, has never been married, and lives with his or her sister. The taxpayer has 2 children, ages 9 and 12, that live with the taxpayer in the home of the taxpayer's sister during school vacations, including the months of 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 \$13,315. The taxpayer's sister earns \$52,000 a year. The taxpayer attends college part time, and the cost is paid for by the taxpayer's sister.

An accurately prepared tax return would result in the taxpayer owing \$1. The preparer would have correctly determined the taxpayer's filing status was Single. Additionally, because the taxpayer did not provide more than one-half of the support for the children, they could not be claimed as dependents for Child Tax Credit purposes. The Earned Income Tax Credit would not be available to the taxpayer due to earned income exceeding 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 January through May 2006. During January and February 2006, TIGTA



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auditors visited SPEC function Territory offices in Phoenix, Arizona; Tampa, Florida; New York, New York; and Houston, Texas, to assess Territory office filing season readiness. Additionally, from February through March 2006, TIGTA auditors performed 36 anonymous visits and had 36 tax returns prepared at judgmentally selected VITA sites located in 12 States. Appendix IV provides the volume of tax returns prepared by the VITA sites in the 12 States during the 2006 Filing Season. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II



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Results of Review

Inaccurate Tax Returns Resulted From Inconsistent Quality of Service at Volunteer Income Tax Assistance Sites

The SPEC function is using established processes that have increased its ability to oversee and monitor the VITA Program. In addition, it has established new initiatives to further improve its communications with its partners. These include:

- **Holding SPEC Function and Partner Conference Calls.** These calls provide an opportunity for the SPEC function and its VITA Program partners to maintain continuous communications concerning the VITA Program. The calls serve as a forum for participants to share concerns and work together to identify solutions to any problems, discuss development of best practices for program-wide implementation, and identify product improvement opportunities.
- **Issuing Quality Alerts.** Throughout the 2006 Filing Season, in response to emerging trends relating to the quality of tax returns being prepared, the SPEC function developed and issued eight Volunteer Quality Alerts. These Alerts direct volunteers' attention to 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. Due to the SPEC function's efforts to heighten partner awareness of the importance of effective Alert distribution, 32 (89 percent) of 36 VITA sites visited were receiving Alerts, a 22 percent increase over the 2005 Filing Season.
- **Creating a SPEC Function Partner/Volunteer Public Webpage.** This webpage was developed to enhance communication of key messages to the VITA volunteer community. It serves as a comprehensive one-stop resource center for access to partner and volunteer news, training, and tax reference materials.
- **Issuing Return Reviewer Alerts.** To increase ongoing internal communications, the SPEC function developed Reviewer Alerts. These Alerts are distributed within the SPEC function and are designed to provide timely feedback to SPEC function employees involved in the tax return review quality process. During the 2006 Filing Season, a total of six Reviewer Alerts were developed and issued.

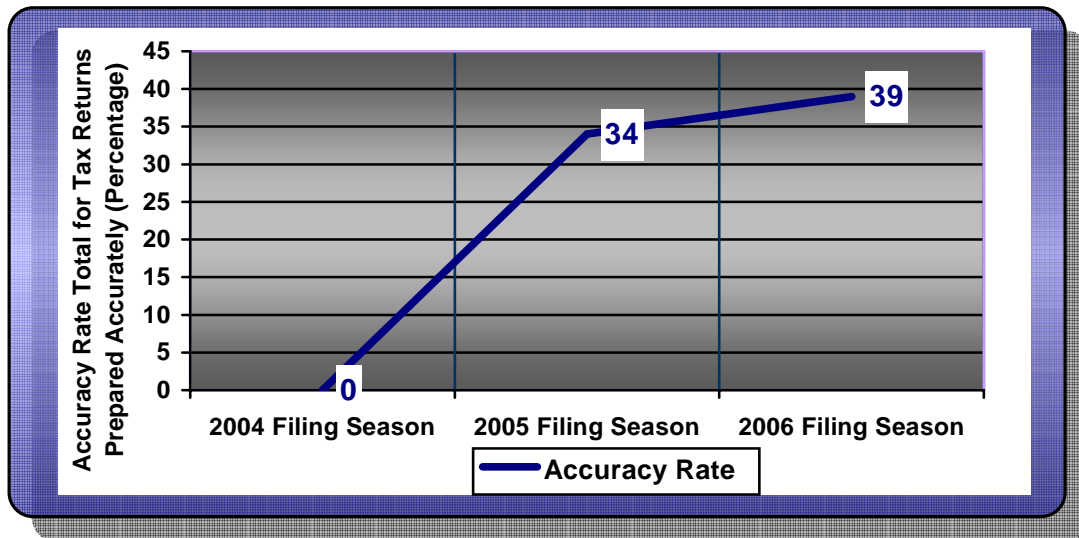
The SPEC function continues its commitment to providing top-quality service to all taxpayers, especially low- to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. This commitment has resulted in the increased accuracy rate associated with tax returns prepared



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at VITA sites since the TIGTA performed its first VITA Program review during the 2004 Filing Season (see Figure 3).

Figure 3: Overall Tax Return Accuracy Rates for the 2004, 2005, and 2006 Filing Seasons



Source: Tax returns prepared for TIGTA auditors by VITA volunteers during the 2004, 2005, and 2006 Filing Seasons.

However, significant barriers continue to reduce the SPEC function's ability to provide quality customer service at VITA sites and to measure the accuracy of prepared tax returns. These barriers include volunteers not adhering consistently to the SPEC function's processes for ensuring the accuracy of tax returns and the SPEC function's inability to implement an effective quality assurance process. As a result, 22 (61 percent) of the 36 tax returns prepared by VITA volunteers for TIGTA auditors were incorrect. If 4 (18 percent) of these incorrectly prepared tax returns had been filed, the taxpayers would not have received \$4,411 in tax refunds to which they were entitled. Alternatively, if the remaining 18 (82 percent) of the 22 incorrectly prepared tax returns had been filed, the IRS would have refunded \$31,828 incorrectly. See Appendix V for details.

Both scenarios used in this review involved tax law issues included in the Basic Course curriculum all volunteers are required to complete successfully before they are certified to engage in the tax return preparation process.⁷ However, IRS management raised concerns that the Form 8332 used in Scenario 1 related to only a minimum number of taxpayers that have their

⁷ Guidelines set forth minimum required training topics covering adjustments to income and tax computation, filing status, dependents, the Earned Income Tax Credit, and the Child Tax Credit. To demonstrate they have received an appropriate minimum level of training, VITA volunteers must earn a "passing" score of 70 percent or better on a tax law examination.

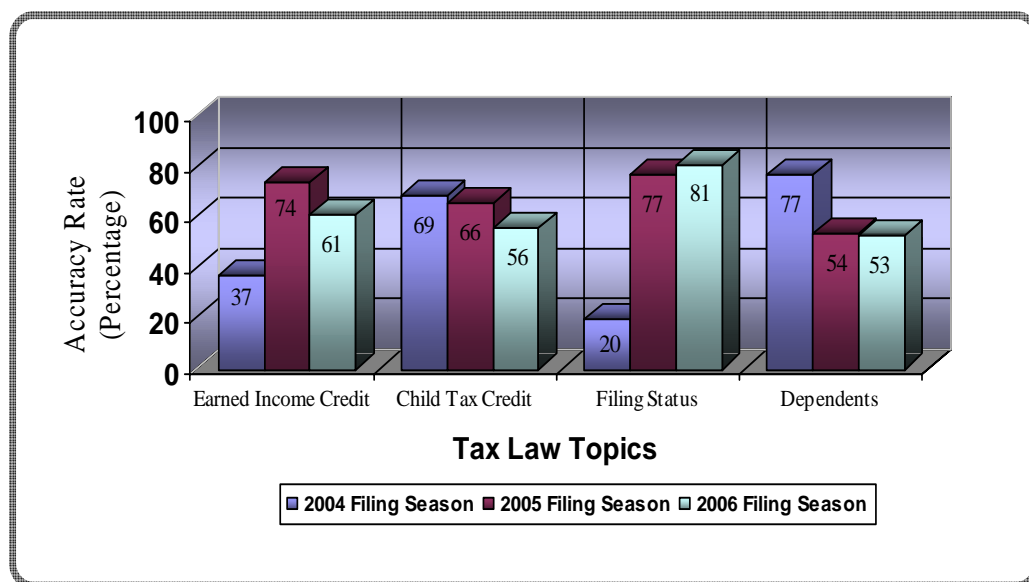


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tax returns prepared by the VITA Program. The IRS stated that its electronic tax data showed only 556 tax returns prepared by VITA volunteers during the 2006 Filing Season included Form 8332. Therefore, they believe using Form 8332 in a scenario created an unrealistic situation and adversely affected the accuracy rate. However, there was no way to determine how many times the Form 8332 applied to the taxpayers' situations and was not appropriately included, as our scenario results show. Nevertheless, we recomputed the accuracy rate by removing those tax returns on which the Form 8332 was the only error. This increased the accuracy rate from 39 percent to 42 percent.

Figure 4 shows a 3-year trend analysis of tax law accuracy at VITA sites for the tax law issues included in our 2 scenarios.

Figure 4: Comparison of Tax Law Accuracy Rates for the 2004, 2005, and 2006 Filing Seasons⁸



Source: Tax returns prepared for TIGTA auditors by VITA volunteers during the 2004, 2005, and 2006 Filing Seasons.

See Appendix VI for 2006 Filing Season results by scenario.

Volunteers did not follow procedures to ensure the accurate preparation of tax returns

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, which outlines a

⁸ Only tax law topics included in both follow-up reviews and this review are included in this comparison (see Appendix VI for a complete list of tax topics addressed in this review).



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step-by-step method for preparing accurate tax returns at VITA sites. The Model's premise is that, for VITA volunteers to complete accurate tax returns, they must ask certain questions about the taxpayers and, if relevant, their families. The Model reinforces the importance of completing a Form 13614 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 each 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 were reported on the tax return.

The two previous TIGTA reports raised concerns regarding volunteers not consistently using the tools designed to assist in ensuring tax returns are prepared accurately. In this current review, we continued to find that key controls designed by the SPEC function to assist in accurate tax return preparation were not followed at VITA sites consistently. For example:

- **The local intake sheets did not include all critical questions.** The SPEC function developed the Form 13614, an intake sheet that contains a standardized list of required intake questions, to guide VITA volunteers in asking taxpayers basic questions about themselves. The purpose of the Form 13614 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 an intake sheet. For the 36 sites visited, all sites used an intake sheet. This represents an improvement over the 2005 Filing Season when 5 (14 percent) of 35 sites did not use an intake sheet.

A VITA site is permitted to create its own intake sheet. However, intake sheets must include those questions designated by the SPEC function as required and included on the Form 13614. These required questions are presented in Appendix VII. For the 36 VITA sites visited, 5 (14 percent) used an intake sheet other than the Form 13614 that did not include all the required critical questions. Although this represents a 13 percent decrease compared with the 2005 Filing Season results, incomplete local intake sheets remain a factor contributing to the preparation of inaccurate tax returns at VITA sites.

- **VITA volunteers did not ensure intake sheets were completely prepared and/or were used during the tax return preparation process.** Contributing to each of our inaccurate tax returns was the lack of a completely prepared intake sheet and/or the volunteer not using the information included on the intake sheet. In fact, auditors noted there was no interaction between the auditor and the volunteer during the tax return preparation process or a review of information contained on the intake sheet.

For 11 (31 percent) of 36 sites visited, the intake sheet was not prepared completely. Incomplete preparation of the intake sheets occurred at those sites where a screener or



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volunteer prepared the intake sheet (7 of the 11 sites) or where the auditor was not allowed sufficient time or told not to complete the entire intake sheet (4 of 11 sites). Information found missing from the screener/volunteer-prepared intake sheet included answers to whether the taxpayer signed Form 8332 to release the dependent exemption to another person; whether someone else could claim the child for Earned Income Tax Credit purposes; and whether the taxpayer made a contribution to a retirement plan, had interest income, or had daycare expenses.

Additionally, volunteers did not use the information contained on the intake sheet to ensure the accuracy of tax law determinations they were deciding. For example:

- The Dependent Exemption was incorrectly applied in 11 instances even though the intake sheet indicated that a Form 8332 was signed.
- Interest Income was not correctly included on five tax returns despite the intake sheets indicating the taxpayers had received interest income.

As shown in Figure 5, when the intake sheet is prepared completely, it provides a good starting point for volunteers to determine what tax topics might apply to a tax return. Discussions with VITA volunteers found that volunteer understanding of the purpose and use of intake sheets was not consistent. However, the intake sheet does not always provide complete information and should be used with other tools and reference materials, including Publication 4012, to provide reasonable assurance that a tax return will be prepared accurately.



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Figure 5: Comparison of Tax Issues Included in TIGTA Scenarios to Key Information Captured on Form 13614

| Tax Issues Related to Scenarios Used by Auditors | Related Questions From Form 13614 |
|--|---|
| Filing Status Correct | Is your spouse deceased? Months (child) in home? Relationship of child (to taxpayer)? As of December 31st were you: Single, Legally Married, Divorced, or Separated? If married, were you living with your spouse any time during the last 6 months of the year? Did you provide more than half the cost of keeping up a home for the year? |
| Dependent Exemption | Filing Status information. Did person (child) file a joint return? (Child) U.S. Citizen, Resident of U.S./Canada/Mexico? Relationship of child (to taxpayer)? Can your parents/someone else claim you/your spouse as a dependent on their tax return? (Child) Permanently/totally disabled? Months (child) in home? Date of (child's) birth? You provide more than 50% of their support? Is person qualifying child of another person? Did the person have gross income of \$3,200 or more? Did the custodial parent sign the Form 8332 or similar statement releasing the exemption? |
| Earned Income Tax Credit | Income information. Filing status from above. Can someone other than you use your child to claim Earned Income Tax Credit? (Child) U.S. Citizen, Resident of U.S./Canada/Mexico? Date of (child's) birth? Receive any investment income (For example: interest or dividends)? As of December 31st were you: Single, Legally Married, Divorced, or Separated? Is the child a full-time student? (Child) Permanently and totally disabled? Is the person a qualifying child of another person? Spouse and taxpayer's birthdates? Can your parents/someone else claim you or your spouse as a dependent on their tax return? Lived in U.S. for more than 6 months: taxpayer or spouse? |
| Dependent Care Credit | Pay for child/dependent care that allowed you to work? Filing status from above. As of December 31st were you: Single, Legally Married, Divorced, or Separated? Provider's address and Tax Identification Number for Child/Dependent Care Credit. |
| Child Tax Credit | Relationship of child (to taxpayer)? Months (child) in home? Date of (child's) birth? Did the child provide over half of his or her own support for 2005? (Child) U.S. Citizen, Resident of U.S./Canada/Mexico? |
| Retirement Savings Contribution Credit | Age of taxpayer? Make contributions to IRA* or retirement plan? Attend college or vocational school? Filing status from above. Income information. Can your parents/someone else claim you or your spouse as a dependent on their tax return? |
| Interest Income | Receive any investment income (for example: interest or dividends)? |

Source: Intake sheet and Publication 4012. *IRA = Individual Retirement Arrangement.



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- **VITA volunteers did not use the Publication 4012 when making tax determinations.** In 28 (78 percent) of 36 sites visited, the volunteers did not use the Publication 4012 during the tax return preparation process.⁹ In all 22 instances where the tax return was incorrectly prepared, the Publication 4012 was not used. Last year we reported the Publication 4012 was not used during the tax return preparation process for 25 (71 percent) of 35 sites.
- **VITA volunteers did not ensure completed tax returns were subjected to the required quality review process.** For 21 (58 percent) of 36 tax returns prepared at the VITA sites, there was no onsite quality review completed. This is an increase over the 40 percent from last year. 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 when conducting quality reviews of tax returns were not used despite SPEC function guidelines that require tax returns to be quality reviewed with the aid of the checklists. Volunteers and/or site coordinators explained that quality reviews were not always performed for a number of reasons, including they were confident in their tax return preparation skills, they did not have the time to review because of the large volume of taxpayers waiting to have tax returns prepared, or they relied on the tax preparation software to perform a quality review.
- **VITA volunteers did not receive Quality Alerts.** Twenty (56 percent) of 36 volunteers interviewed stated they had not received Quality Alerts as of the date of our visit to the site, despite 32 of the 36 sites confirming receipt of these Quality Alerts. As a result, these volunteers were not alerted to tax issues that may have adversely affected the accuracy of tax returns they prepared. We did not track this in prior years and, as a result, we are unable to make a comparison.

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 be required later to face the demands of an IRS audit of their tax returns due to potential errors identified on the returns.

Improvements are needed to ensure the Volunteer Return Preparation Program Quality Improvement Plan provides accurate measures

The SPEC function has developed procedures and controls as part of its Volunteer Return Preparation Program Quality Improvement Plan. However, certain procedures are not being followed and not all controls are effective. This is understandable because the Quality Improvement Plan is still in the early stages of implementation.



⁹ Three of the 28 instances involved VITA sites where no Publication 4012 was available.



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In addition, many of our concerns are inherent to a program this large dealing with volunteers and a complex tax system. Volunteers and their partner organizations play a significant role in the IRS' tax return preparation program. The IRS is moving away from providing tax preparation assistance at its Taxpayer Assistance Centers and is relying more on the VITA Program and its partners to provide this service. This presents significant challenges to the IRS and the SPEC function. The strengths of the VITA Program lie in its volunteers and partners. However, relying on volunteers to deliver the Program has inherent risks.

The SPEC function must balance the needs and desires of the volunteers with the IRS' mission and goals. As it strives to achieve its mission and goals and provide accountability for its operations, the SPEC function will have to continually assess and evaluate its internal control structure to ensure the VITA Program is providing accurate and reliable measurements, particularly measurements related to the accuracy of tax returns prepared.

In response to concerns raised during prior TIGTA reviews, for the 2006 Filing Season, the SPEC function implemented the comprehensive Volunteer Return Preparation Program Quality Improvement Plan. The Quality Improvement Plan follows an integrated approach that includes:

- **Site Reviews** to measure the administrative aspects of a volunteer site. These reviews are used to assess procedures and site readiness using the Volunteer Return Preparation Program Site Review (Form 6729). Employees of the SPEC function visit the VITA sites and assess whether the sites are operating as intended. For example, these documented reviews include checks to determine if the sites have the required reference materials available for the volunteers, if volunteers have completed the required training, and if taxpayer information is safeguarded.
- **Shopping Reviews** to measure the taxpayer's qualitative experience. These reviews involve unannounced/anonymous visits to sites by a neutral third-party reviewer playing the role of a taxpayer using made-up scenarios. The SPEC function relied on the TIGTA for this component of the quality assurance process. On a weekly basis, we reported to SPEC function management current results of tax returns prepared during auditors' visits to VITA sites.
- **Tax Return Reviews** to measure whether the tax law was applied properly for critical items and resulted in the correct tax determinations. The volume of tax return reviews and the specific sites included in this process were based on a statistical sampling plan designed by the IRS Statistics of Income function. A SPEC function tax specialist conducts these reviews. To ensure objectivity, the tax specialists do not review sites they normally oversee. The tax specialists contact the sites to be reviewed at least 5 days prior to the visit, alerting them to the upcoming review. Once at the site, the tax specialist is to select randomly three tax returns to review. The reviews should be performed after the site completes a quality review of the tax return and while the taxpayer is present. If a tax return is found to be inaccurate, it will be sent back to the volunteer preparer to be corrected. The tax specialist is



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responsible for recording the results of each tax return reviewed on the Volunteer Return Preparation Program - Return Review (Form 6729C). The Form 6729C information is used to compile accuracy reports, which are provided at the national level and stratified by four partner types (VITA, Military, Tax Counsel for the Elderly/American Association of Retired Persons, and Tax Counsel for the Elderly/Non-American Association of Retired Persons).

We determined certain procedures are not being followed and not all controls are effective for the Volunteer Return Preparation Program Quality Improvement Plan process to meet its intended goals, including ensuring the VITA Program is providing taxpayers with consistently high-level service. For example:

- **Tax returns are not selected randomly during the tax return review process.** Volunteers, rather than the tax specialist, often selected which tax returns were to be reviewed. We notified SPEC function management of this condition and they immediately held a national teleconference to reiterate the importance of random selection. At this point, however, the tax return review process was nearing completion.
- **Territory managers¹⁰ are not in compliance with the directive that they accompany tax specialists on at least one of their required tax return reviews.** Territory managers serve as the primary control to ensure SPEC function tax specialists are correctly and consistently conducting tax return reviews. The SPEC function guidelines require Territory managers to accompany each of their tax specialists on at least one tax return review to oversee and review the work of the responsible tax specialists. However, our survey of the 30 Territory managers found that 22 (73 percent) were not in compliance with this SPEC function tax return review guideline. See Figure 6 for a summary of our survey results.

¹⁰ The SPEC function consists of 42 Territory offices geographically distributed around the United States to provide direct oversight to local VITA sites.



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Figure 6: Summary Results - Oversight of Tax Return Review Process

| How Many Tax Specialists That You Oversee Participate in the Tax Return Review Process? | How Many of the Tax Specialists Involved in the Tax Return Review Process Had at Least One Review Conducted on Them? | Was Responsible Manager in Compliance With Managerial Review Guidelines? | | If Applicable, Did You Retain Documentation Detailing Results of Your Review? | | If Applicable, for the Reviews Conducted, Did You Perform a Tax Return Review Yourself and Compare Your Results to the Results Compiled by the Tax Specialist for That Tax Return? | |
|---|--|--|--------|---|--------|--|--------|
| | | Yes | No | Yes | No | Yes | No |
| 236 | 111 | 8 | 22 | 7 | 19 | 8 | 18 |
| | 47.03% | 26.67% | 73.33% | 26.92% | 73.08% | 30.77% | 69.23% |

Source: Results of the TIGTA survey of all SPEC function Territories.

- Documentation supporting VITA Program accuracy results is not maintained.** The SPEC function entered an agreement with its partners participating in the VITA Program that ensures source documentation used as part of the tax return reviews would not be maintained (e.g., the Form 13614, Forms W-2, Forms 1099, Social Security cards). Consequently, neither the SPEC function nor external oversight organizations are able to verify the validity of the accuracy of tax return review reporting.
- Tax return reviews create bias if the volunteers and tax specialists know they are being observed and/or reviewed.** Tax specialists announce 1 week in advance of when they will be visiting the VITA sites. This allows the volunteers an opportunity to prepare and reinforce their controls and procedures. In addition, once tax specialists are onsite, volunteers are aware they are being reviewed. This physical presence establishes an artificial situation for the volunteers and inhibits the accurate assessment of performance. The same situation occurs when the Territory manager accompanies the tax specialist and observes the tax return reviews.

Performance measures need to be based on program-related characteristics and performance data, and must be sufficiently complete, accurate, and consistent

The Government Performance and Results Act of 1993¹¹ directs Federal Government agencies to focus on their missions and goals and provides guidance on how to achieve those goals and how to improve their structural organizations and business processes. Performance data must be used to improve organizational processes, identify performance gaps, and set improvement goals.

¹¹ Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).



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Performance measures need to be verified and validated. Program performance is to be measured against those goals and the progress reported publicly.

Currently, the SPEC function reports two performance measures: Percent of Individual Returns Processed Electronically by SPEC Volunteers and Number of Taxpayer Contacts. The SPEC function, unlike the Taxpayer Assistance Center¹² Program or the toll-free telephone operation, does not have a performance measure to gauge accuracy. For example, the Taxpayer Assistance Center Program measures and reports the accuracy rate of tax return preparation while both the toll-free telephone operation and Taxpayer Assistance Program measure and report the accuracy of tax law and account questions answered. However, both Programs have implemented or are implementing quality assurance systems that collect the data needed to measure, validate, and report accuracy.

Although the SPEC function also is implementing a quality assurance system, it has not implemented processes to both collect data on the accuracy of its tax return preparation program and ensure it is complete, accurate, and consistent. To do so, the SPEC function must have a quality assurance system that conducts independent reviews and maintains sufficient documentation on the tax returns prepared and the subsequent reviews of those tax returns to validate and verify the accuracy results. Without these two elements, the VITA Program does not have a means to measure and report its performance as it relates to the accuracy of its tax return preparation.

However, at the request of its partners, the SPEC function has agreed not to conduct unannounced tax return reviews and not to maintain documentation to support tax return reviews. The SPEC function and its partners believe retaining additional documentation on taxpayers creates unnecessary privacy and security risks, thus increasing the risk of identity theft. Also, additional documentation and a new system of records require the IRS to seek additional comments from the public and would not be without additional costs. IRS officials stated that the infrastructure required to retain these documents increases the costs of VITA Program.

These concerns are not without merit. These decisions reflect the importance of the IRS maintaining effective partner relationships. Nevertheless, it is critical that the IRS and the SPEC function have a reliable method of reporting the accuracy of tax return preparation at VITA sites. The SPEC function must have internal controls and a quality assurance system to provide sufficient oversight of the VITA Program. If control of the VITA Program becomes blurred, it could diminish the effectiveness of the internal controls and SPEC function's ability to effectively oversee the VITA Program.

¹² Taxpayer Assistance Centers are operated by the IRS to provide walk-in service for taxpayers.



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This concern was also expressed by the National Taxpayer Advocate during recent testimony. In written Congressional testimony,¹³ the National Taxpayer Advocate states:

. . . The IRS is increasingly relying on partners to deliver core IRS services. Clearly, partners are very important to effective tax administration, and I applaud the efforts of dedicated professionals and volunteers in assisting taxpayers. However, this reliance raises several concerns. First, when the IRS relies on partners to deliver a message, we need to study what happens to the message in the course of delivery . . . What are the true costs of effective oversight over these partners? Who conducts such oversight and bears the cost? If taxpayers bear the cost, will they continue to comply if the cost is too great or the quality too poor? Will the IRS actually realize any savings or will it incur more expense through additional enforcement activity that could be avoided if the IRS itself delivered the assistance? . . .

Without an effective quality assurance process, management lacks sufficient information, including verifiable tax return accuracy measures, to monitor VITA Program quality and properly manage corrective actions. Further, without an effective quality assurance process, the risk continues that VITA volunteers will inappropriately apply the tax law, which could result in incorrectly prepared tax returns and increases in the annual Federal tax gap.¹⁴

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

Though the SPEC function Territory offices maintain the SPEC Volunteer Site Information Sheets (Form 13715) that provide the locations, operating hours, and services provided, our sample of 117 Forms 13715 showed that information for 39 (33 percent) of 117 VITA sites tested was not accurately entered into the system that is used by toll-free telephone assistors. In all 39 instances, the errors identified resulted from inaccurate manual transfer of information from the Forms 13715 into the system. For those taxpayers that rely on the IRS to locate a VITA site or to determine the hours a particular site is open or the services it provides, inaccurate information can create significant burden. Figure 7 presents a summary of the errors identified.

¹³ Written Statement of National Taxpayer Advocate before the Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies Committee on Appropriations United States Senate, April 27, 2006.

¹⁴ The IRS defines the gross tax gap as the difference between what taxpayers voluntarily pay and the amount they actually owe in a calendar year. The IRS estimates the annual gross tax gap to about \$345 billion.



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Figure 7: Summary of VITA Site Information Errors Identified

Breakdown of errors associated with the 39 VITA sites where information available to toll-free assistors was determined to be inaccurate. Information for each site may contain one or more errors.

| VITA Site Address Not Accurate | Date VITA Site Will Open Not Accurate | Date VITA Site Will Close Not Accurate | Days of Operation for VITA Site Not Accurate | VITA Site Hours of Operation Not Accurate | Languages Offered at VITA Site Not Accurate |
|--------------------------------|---------------------------------------|--|--|---|---|
| 11 | 11 | 10 | 12 | 10 | 21 |

Source: Comparison of Forms 13715 with the information available to IRS toll-free telephone assistors.

The guidelines developed by the SPEC function to ensure accurate site information require that the Forms 13715 be used to secure accurate site operating information. The Forms 13715 provide the IRS with updated site locations, operating hours, and current services offered to assist taxpayers based on their specific needs. These Forms should have been completed by the site coordinator or partner familiar with the site operations no later than December 15, 2005. Upon completion, the original Form must be forwarded to the appropriate SPEC function Territory office. The SPEC function Territory offices are responsible for ensuring all site information is entered accurately to the system used by toll-free telephone assistors.

Recommendations

The Commissioner, W&I Division, should:

Recommendation 1: Require VITA sites to use the Form 13614, with each site having the option to append the Forms 13614 with supplemental questions as deemed necessary. In addition, require that Form 13614 be prepared by the taxpayer to ensure it is prepared accurately.

Management’s Response: IRS management agreed with this recommendation. The SPEC function will continue to require each site to use Form 13614 or the partner’s equivalent to prompt return preparers to ask questions necessary for accurate completion of the tax returns. In addition, the SPEC function will revise Form 13614 to require completion of identifying information by the taxpayer and completion of return information by the return preparer.

Recommendation 2: Ensure training continues to emphasize the need to use the various quality assurance tools, including using the Form 13614, referring to reference guides, and ensuring all tax returns are subjected to the required quality review. In addition, develop oversight processes to ensure tools are used that may include requiring volunteers and taxpayers to initial Forms 13614 confirming volunteers reviewed the information with the taxpayers.



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Management's Response: IRS management agreed with this recommendation. The SPEC function will revise its training materials for both the return preparation and review processes. The SPEC function also will revise tools (forms, training, and guidance documents) used in the Volunteer Return Preparation Program Quality Improvement Plan based on findings from reviews, partner and employee feedback, and TIGTA results. Lastly, the SPEC function will continue to emphasize the requirement that all tax returns are subject to quality review. However, because Form 13614 is a tool and not a return, and retention of the Form is not required, the IRS believes signatures or initials by the volunteers or taxpayers are not necessary.

Recommendation 3: Establish a process to ensure accuracy results are verifiable and validated. This process should ensure source documentation is maintained to support tax return reviews. In addition, to improve the integrity of the review process, ensure reviews are unannounced and tax returns are selected randomly by the SPEC function employee performing the review.

Management's Response: IRS management agreed with this recommendation in part. The SPEC function will establish an independent process to validate the accuracy reported and provide systemic improvements. The SPEC function will implement shopping reviews that use scenarios representative of its customer base to assess the customer experience. Finally, the SPEC function will strengthen the process for selection of returns for review by SPEC function employees.

However, the IRS did not agree with requiring partners to maintain source documents used by volunteers in preparing tax returns. The IRS believes this likely would erode effective IRS-partner relations by significantly increasing partner operational burden and costs, as well as require considerable new security infrastructure. The IRS also did not agree that reviews should be unannounced because announced visits promote collaborative ownership of quality service. The IRS believes there is no evidence that announced visits skew return selection or accuracy results any more or less than unannounced visits.

Office of Audit Comment: In other IRS service areas such as the Taxpayer Assistance Center Program and the toll-free telephone operation, the IRS has recognized the importance of maintaining documentation to support quality and ensure the correct application of the tax law. Maintaining documentation for quality review purposes is a standard practice throughout the IRS and private industry. If documentation is not maintained, the IRS does not have the ability to validate its quality results.

In addition, the physical presence of a reviewer establishes an artificial situation for the volunteers and inhibits the accurate assessment of performance. The IRS has acknowledged that, when using direct observations in its Taxpayer Assistance Center Program and toll-free telephone operation, the results were skewed. Thus, the IRS has



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used and is using Contact Recording instead of direct observations to provide quality review results. Because Contact Recording is not currently a viable option for the VITA Program, the IRS should attempt to alleviate this limitation by not announcing visits, which allows the volunteers an opportunity to prepare and reinforce their controls and procedures.

Recommendation 4: Develop a process to verify periodically whether information is entered accurately from the Form 13715 into the system used by toll-free telephone assistants.

Management's Response: IRS management agreed with this recommendation. The SPEC function will continue to use the validation process developed during the 2006 Filing Season and will enhance the process further by including the following:

- SPEC management will be required to validate input in the SPEC Taxpayer Assistance Reporting System site module and certify its accuracy.
- Form 13715 will require the initials of the employee inputting the data in the SPEC Taxpayer Assistance Reporting System and of management's concurrence with its accuracy.



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Appendix I

Detailed Objectives, Scope, and Methodology

The overall objective of this review was to determine whether taxpayers received quality service, including the accurate preparation of their income tax returns, when visiting the Volunteer Income Tax Assistance (VITA) sites. We also assessed the ease with which taxpayers can locate VITA sites and obtain information about the specific services offered and assessed the Internal Revenue Service's (IRS) process for ensuring the overall quality of VITA Program operations. To accomplish these objectives, we:

- I. Determined whether controls were effective to ensure taxpayers are provided with accurate information on the locations, hours of operation, and types of services (e.g., languages for which assistance is provided, whether an appointment is necessary) VITA sites provide.
 - A. Determined the process followed by the IRS to populate the VITA site list and ensure the information contained in the list remains accurate.
 - B. Randomly selected 117 VITA sites to verify the accuracy of the information (e.g., the locations, hours of operation, and types of services) provided to the IRS toll-free telephone assistors. The VITA sites were selected from each of the four Stakeholder Partnerships, Education, and Communication (SPEC) function Area Offices¹ to verify whether site information detailed on the SPEC Volunteer Site Information Sheets (Form 13715) for each site was accurately entered to the system relied on by toll-free telephone assistors. The population of VITA sites is not fixed, and VITA sites open and close throughout the filing season.² Therefore, we could not determine the total population of VITA sites and could not do a statistical sample.
 - C. Where we found the location and service information provided to taxpayers was incorrect, determined why and attempted to measure the potential impact on taxpayers.
- II. Determined whether the VITA sites were preparing individual income tax returns accurately, based on facts provided by the taxpayers.
 - A. Obtained and analyzed an extract of Tax Year 2004 tax returns prepared at community-based VITA sites to identify characteristics of these taxpayers. This

¹ The Stakeholder Partnerships, Education, and Communication function is organized into 4 Area Offices covering 42 Territory offices.

² The filing season is the period from January through mid-April when most individual income tax returns are filed.



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- information was the basis for the scenarios developed and used by Treasury Inspector General for Tax Administration auditors. Tax Year 2004 data were used because they were the most current and complete data available.
- B. To assess the validity of the Tax Year 2004 data, sampled the information for five taxpayer accounts and compared the information with a separate system of records and verified the information in our extract reliably reflected the information taxpayers reported on their tax returns.
 - C. Selected a judgmental sample of 36 VITA sites nationwide and attempted to have a tax return prepared. The VITA sites were selected judgmentally from each of the four SPEC function Area Offices and included at least two States from each Area Office. The VITA site selection was based on the volume of tax returns prepared by the sites, resources, and the sites' proximity to major cities. See Appendix IV for a list of VITA sites visited.
 - D. Determined whether the tax return prepared by the volunteer was correct, including whether the volunteer properly evaluated eligibility for deductions, exemptions, and credits claimed or denied.
 - E. Where we found that individual income tax returns were prepared incorrectly, determined why and attempted to measure the potential impact on taxpayers and tax revenue.
- III. Determined whether the IRS' process for measuring the quality and accuracy of the VITA Program is effective.
- A. Determined actions taken in responses to prior Treasury Inspector General for Tax Administration audits to improve quality and accuracy.
 - B. Interviewed management to identify actions taken to improve quality and accuracy.
 - C. Determined whether the Volunteer Return Preparation Program Quality Improvement Plan achieved its objective, including the number of reviews to be completed.
 - D. When we found the quality process for measuring the quality and accuracy of the VITA Program was not effective, attempted to determine why and the impact on the Program.



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Appendix II

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, Strategy and Finance, Wage and Investment Division SE:W:S
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Director, Stakeholder Partnerships, Education, and Communication, Wage and Investment
Division SE:W:CAR:SPEC
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S



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Appendix IV

**Sites Reviewed and Volume of Tax Returns
Prepared During the 2006 Filing Season¹**

| City | State | Volume of Tax Returns Prepared | Volume of e-file Tax Returns Prepared | Volume of Paper Tax Returns Prepared | City | State | Volume of Tax Returns Prepared | Volume of e-file Tax Returns Prepared | Volume of Paper Tax Returns Prepared |
|------------------|-------------|--------------------------------|---------------------------------------|--------------------------------------|--------------|---------------|--------------------------------|---------------------------------------|--------------------------------------|
| Phoenix | Arizona | 1,022 | 961 | 61 | Albuquerque | New Mexico | 3,969 | 3,863 | 106 |
| Phoenix | Arizona | 988 | 894 | 94 | Albuquerque | New Mexico | 1,252 | 1,192 | 60 |
| Phoenix | Arizona | 114 | 112 | 2 | Santa Fe | New Mexico | 1,365 | 1,297 | 68 |
| Los Angeles | California | 134 | 1 | | Brooklyn | New York | 961 | 879 | 82 |
| Los Angeles | California | 222 | 216 | 6 | New York | New York | 927 | 864 | 63 |
| Los Angeles | California | 210 | 210 | 0 | New York | New York | 7,407 | 6,471 | 936 |
| Lakeland | Florida | 496 | 492 | 4 | Columbus | Ohio | 531 | 509 | 22 |
| Saint Petersburg | Florida | 1,037 | 1,001 | 36 | Columbus | Ohio | 107 | 97 | 10 |
| Saint Petersburg | Florida | 529 | 518 | 11 | Springfield | Ohio | 925 | 923 | 2 |
| Chicago | Illinois | 585 | 427 | 158 | Harrisburg | Pennsylvania | 764 | 750 | 14 |
| Chicago | Illinois | 1,701 | 1,500 | 201 | Philadelphia | Pennsylvania | 540 | 520 | 20 |
| Kankakee | Illinois | 696 | 593 | 103 | Philadelphia | Pennsylvania | 517 | 498 | 19 |
| Baton Rouge | Louisiana | 654 | 632 | 22 | Freeport | Texas | 17 | 15 | 2 |
| Houma | Louisiana | 497 | 446 | 51 | Houston | Texas | 272 | 260 | 12 |
| New Orleans | Louisiana | 232 | 1 | | Houston | Texas | 248 | 236 | 12 |
| Biloxi | Mississippi | 351 | 342 | 9 | Charleston | West Virginia | 403 | 403 | 0 |
| Hattiesburg | Mississippi | 159 | 153 | 6 | Wheeling | West Virginia | 215 | 210 | 5 |
| Senatobia | Mississippi | 115 | 1 | | Wheeling | West Virginia | 2,821 | 2,800 | 21 |

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

¹ The 2006 Filing Season relates to the processing of Tax Year 2005 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

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

| Volunteer Income Tax Assistance (VITA) Sites Visited | VITA Site Refund or Amount Due | Correct Refund or Balance Due | Understated | | Overstated | |
|--|--------------------------------|-------------------------------|------------------|----------------|-------------|-----------------|
| | | | Balance Due | Refund | Balance Due | Refund |
| Phoenix, Arizona | \$1,874 | \$730 | | | | \$1,144 |
| Phoenix, Arizona | \$57 | \$730 | | \$673 | | |
| Los Angeles, California | \$1,905 | \$730 | | | | \$1,175 |
| Los Angeles, California | \$1,466 | \$730 | | | | \$736 |
| Lakeland, Florida | \$5,259 | -\$1 | -\$5,260 | | | |
| Saint Petersburg, Florida | \$859 | -\$1 | -\$860 | | | |
| Chicago, Illinois | \$761 | \$730 | | | | \$31 |
| Baton Rouge, Louisiana | \$2,139 | \$730 | | | | \$1,409 |
| Hattiesburg, Mississippi | -\$516 | \$730 | | \$1,246 | | |
| Albuquerque, New Mexico | -\$516 | \$730 | | \$1,246 | | |
| Brooklyn, New York | \$5,259 | -\$1 | -\$5,260 | | | |
| New York, New York | -\$516 | \$730 | | \$1,246 | | |
| New York, New York | \$2,241 | \$730 | | | | \$1,511 |
| Columbus, Ohio | \$2,210 | \$730 | | | | \$1,480 |
| Columbus, Ohio | \$1,905 | \$730 | | | | \$1,175 |
| Harrisburg, Pennsylvania | \$1,976 | \$730 | | | | \$1,246 |
| Philadelphia, Pennsylvania | \$859 | -\$1 | -\$860 | | | |
| Houston, Texas | \$2,210 | \$730 | | | | \$1,480 |
| Houston, Texas | \$5,259 | -\$1 | -\$5,260 | | | |
| Freeport, Texas | \$1,210 | \$730 | | | | \$480 |
| Wheeling, West Virginia | \$1,945 | \$730 | | | | \$1,215 |
| Wheeling, West Virginia | \$1,976 | \$730 | | | | \$1,246 |
| Totals: | | | -\$17,500 | \$4,411 | \$0 | \$14,328 |


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



Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program

Appendix VI

Accuracy of Eligibility Determinations

|  Tax Law Topic | Eligibility Assessment | | | |
|---|--|--|--|----------------------|
| | Scenario # 1 | | Scenario # 2 | |
| | 18 Tax Returns Prepared (1 Tax Return Prepared Accurately) | | 18 Tax Returns Prepared (13 Tax Returns Prepared Accurately) | |
| | Number of Tax Returns on Which Tax Eligibility Determination Was Incorrect | Percentage Incorrect | Number of Tax Returns on Which Tax Eligibility Determination Was Incorrect | Percentage Incorrect |
| CTC | 11 | 61% | 5 | 28% |
| Dependent Care Credit | 11 | 61% | Not Included | NA |
| Dependency Exemption | 12 | 67% | 5 | 28% |
| Earned Income Tax Credit | 11 | 61% | 3 | 17% |
| Filing Status | 3 | 17% | 4 | 22% |
| Income | 6 | 33% | Not Included | NA |
| Retirement Savings Contribution Credit | 8 | 44% | Not Included | NA |
| Taxpayer Key Facts: <ul style="list-style-type: none"> <input type="checkbox"/> Lived with his/her 10-year-old child. <input type="checkbox"/> Contributed to a 401(k) plan. <input type="checkbox"/> Received an Interest Income Statement (Form 1099-INT). <input type="checkbox"/> As part of divorce, taxpayer signed a Release of Claim to Exemption for Child of Divorced or Separated Parents (Form 8332). <input type="checkbox"/> Had dependent care expenses. | | Taxpayer Key Facts: <ul style="list-style-type: none"> <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 Treasury Inspector General for Tax Administration auditors by Volunteer Income Tax Assistance volunteers during the 2006 Filing Season. CTC = Child Tax Credit. NA = not applicable.



Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program

Appendix VII

Tax Preparation Information Sheet

| | | | | | | | | | | | |
|--|--|----------------------------------|---|--|---|--|--|---|---|---|---|
| Form 13614 (Rev. 12-2005) | INTERVIEW AND INTAKE SHEET | OMB # 1545-1432 | | | | | | | | | |
| <p>Instructions: This form will be used by screeners, preparers, or others involved in the return preparation process. Please complete all information. The partner or site may request additional information. The service statement and request for the taxpayer's signature(s) on page 2 must be included on partner in-take forms used in lieu of this IRS Form 13614.</p> | | | | | | | | | | | |
| <p>You will need:</p> <table style="width: 100%;"> <tr> <td><input type="checkbox"/> Valid Picture I.D.</td> <td><input type="checkbox"/> Form 8332 or copy of divorce decree for non-custodial parent claiming child</td> </tr> <tr> <td><input type="checkbox"/> Copies of ALL W-2, 1098, 1099 Forms and the amount of other income received by you and your spouse</td> <td><input type="checkbox"/> Proof of Account Number and Routing Transit Number of the financial institution for direct deposit into a savings or checking account</td> </tr> <tr> <td><input type="checkbox"/> Tax Identification Number (TIN) for you, your spouse and any others shown on the tax return</td> <td><input type="checkbox"/> Copy of prior year's tax return, if available</td> </tr> <tr> <td><input type="checkbox"/> Provider's address and Tax Identification Number for Child/Dependent Care Credit</td> <td></td> </tr> </table> | | | <input type="checkbox"/> Valid Picture I.D. | <input type="checkbox"/> Form 8332 or copy of divorce decree for non-custodial parent claiming child | <input type="checkbox"/> Copies of ALL W-2, 1098, 1099 Forms and the amount of other income received by you and your spouse | <input type="checkbox"/> Proof of Account Number and Routing Transit Number of the financial institution for direct deposit into a savings or checking account | <input type="checkbox"/> Tax Identification Number (TIN) for you, your spouse and any others shown on the tax return | <input type="checkbox"/> Copy of prior year's tax return, if available | <input type="checkbox"/> Provider's address and Tax Identification Number for Child/Dependent Care Credit | | |
| <input type="checkbox"/> Valid Picture I.D. | <input type="checkbox"/> Form 8332 or copy of divorce decree for non-custodial parent claiming child | | | | | | | | | | |
| <input type="checkbox"/> Copies of ALL W-2, 1098, 1099 Forms and the amount of other income received by you and your spouse | <input type="checkbox"/> Proof of Account Number and Routing Transit Number of the financial institution for direct deposit into a savings or checking account | | | | | | | | | | |
| <input type="checkbox"/> Tax Identification Number (TIN) for you, your spouse and any others shown on the tax return | <input type="checkbox"/> Copy of prior year's tax return, if available | | | | | | | | | | |
| <input type="checkbox"/> Provider's address and Tax Identification Number for Child/Dependent Care Credit | | | | | | | | | | | |
| Your First Name | M.I. | Last Name | | | | | | | | | |
| Spouse's First Name | M.I. | Spouse's Last Name, if different | | | | | | | | | |
| Address | City | State | | | | | | | | | |
| Telephone Number: Daytime | Evening | Cell | | | | | | | | | |
| Your Date of Birth (mm/dd/yyyy) / / | Spouse's Date of Birth (mm/dd/yyyy) / / | | | | | | | | | | |
| Critical Data | | | | | | | | | | | |
| Check if U.S. Citizen or resident alien all year: <input type="checkbox"/> Taxpayer <input type="checkbox"/> Spouse | Check if lived in U.S. for more than 6 months: <input type="checkbox"/> Taxpayer <input type="checkbox"/> Spouse | | | | | | | | | | |
| Check if Legally Blind: <input type="checkbox"/> Taxpayer <input type="checkbox"/> Spouse | Check if Permanently Disabled: <input type="checkbox"/> Taxpayer <input type="checkbox"/> Spouse | | | | | | | | | | |
| As of December 31st were you: <input type="checkbox"/> Single <input type="checkbox"/> Legally Married <input type="checkbox"/> Separated <input type="checkbox"/> Divorced | | | | | | | | | | | |
| If married, were you living with your spouse at anytime during the last 6 months of the year? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A | | | | | | | | | | | |
| Is your spouse deceased? <input type="checkbox"/> Yes <input type="checkbox"/> No | If yes, date spouse died (mm/dd/yyyy) / / | | | | | | | | | | |
| Can your parents or someone else claim you or your spouse as a dependent on their tax return? <input type="checkbox"/> Yes <input type="checkbox"/> No | | | | | | | | | | | |
| Did you provide more than half the cost of keeping up a home for the year? <input type="checkbox"/> Yes <input type="checkbox"/> No | | | | | | | | | | | |
| Has the Earned Income Credit been disallowed by IRS? <input type="checkbox"/> Yes <input type="checkbox"/> No | | | | | | | | | | | |
| Family and Dependent Information | | | | | | | | | | | |
| List everyone who lived in your home and anyone living outside your home that you or your spouse supported during the tax year. For example: Son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them, also mother or father. Do not include yourself or your spouse. | | | | | | | | | | | |
| First Name | Last Name | Date of Birth (mm/dd/yyyy) | Relationship to you | Months in home, *see Special Rules below | US Citizen, Resident of US, Canada or Mexico | Did person file joint return? | Is child a full-time student or permanently and totally disabled? | Did child provide more than 50% of their own support? | Did you provide more than 50% of their support? | Did the person have Gross Income of \$3200 or more? | Is person qualifying child of another person? |
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| <p>*Special Rules for parents who are divorced or legally separated or lived apart at all times during the last 6 months of the year. If the child lived in your home for less than half of the calendar year:</p> <ul style="list-style-type: none"> • Did one or both parents provide over half of the child's total support? <input type="checkbox"/> Yes <input type="checkbox"/> No • Is the child in custody of one or both parents for more than half of the year? <input type="checkbox"/> Yes <input type="checkbox"/> No • Did the custodial parent sign the Form 8332 or similar statement releasing the exemption? <input type="checkbox"/> Yes <input type="checkbox"/> No | | | | | | | | | | | |
| Form 13614 (Rev. 12-2005) | | | Catalog Number 38836A | | | Department of the Treasury — Internal Revenue Service | | | | | |



Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program

| | | |
|--|--|--|
| During the tax year did you, your spouse, or anyone in your household: | | |
| Receive any investment income (For example: interest or dividends)? <input type="checkbox"/> Yes <input type="checkbox"/> No | Pay student loan interest? <input type="checkbox"/> Yes <input type="checkbox"/> No | |
| Receive a distribution from an IRA or retirement plan? <input type="checkbox"/> Yes <input type="checkbox"/> No | Attend college or vocational school? <input type="checkbox"/> Yes <input type="checkbox"/> No | |
| Receive Social Security payments? <input type="checkbox"/> Yes <input type="checkbox"/> No | Own a home? <input type="checkbox"/> Yes <input type="checkbox"/> No | |
| Receive unemployment payments? <input type="checkbox"/> Yes <input type="checkbox"/> No | Pay for child/dependent care that allowed you to work? <input type="checkbox"/> Yes <input type="checkbox"/> No | |
| Have income that was not reported on a W-2 or 1099? (For example: gambling winnings, jury duty, alimony or self employment income) <input type="checkbox"/> Yes <input type="checkbox"/> No | Can someone other than you use your child to claim the EITC? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A | |
| Make contributions to an IRA or a retirement plan? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| Authorization | | |
| <ul style="list-style-type: none"> • Do you authorize the retention of Form 13614, Interview and Intake Sheet, to help with the processing of your tax return? <input type="checkbox"/> Yes <input type="checkbox"/> No • Do you authorize the retention of your electronic tax return information for subsequent return preparation? <input type="checkbox"/> Yes <input type="checkbox"/> No • Do you authorize the retention of your name, address, and telephone number for the purpose of mailing of product and/or services that may be of value to you? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| Note: Answer all three questions, each one stands on its own merit. | | |
| Service Statement: You will not be denied service if you do not authorize any of these retention options. 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 3 years from the due date of the return. | | |
| Signature | Date | |
| Interview Notes: | | |
| <ul style="list-style-type: none"> • <u>(Volunteer Use Only:</u> Be sure to note anything that changed on this intake sheet because of your interview. Coordinator and IRS Site Reviewer will use this information to verify accuracy of return.) | | |
| Paperwork Reduction Act Notice | | |
| <p>The Paperwork Reduction Act requires that the IRS display an OMB control number on all public information requests. The OMB Control Number for this study is 1545-1432. Also, if you have any comments regarding the time estimates associated with this study or suggestions on making this process simpler, please write to the: Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, Washington, DC 20224.</p> | | |
| Form 13614 (Rev. 12-2005) | Catalog Number 38838A | Department of the Treasury — Internal Revenue Service |

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



Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program

Appendix VIII

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
AUG 04 2006

AUG 04 2006

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

for Richard J. Morgante *Richard J. Watson*
Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report – Oversight and Accuracy of Tax Returns Continue to Be a Problem for the Volunteer Income Tax Assistance Program (Audit # 200640013)

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, which is responsible for overseeing the Volunteer Income Tax Assistance (VITA) Program, continues its commitment to providing top quality service to all taxpayers, especially the low to moderate income, elderly, disabled, and limited-English-proficient. It is important to also point out that the partners and volunteers who invest valuable resources, time, and expertise serving this population mirror SPEC's commitment and success. As you note, this combined commitment has resulted in increased accuracy associated with tax returns prepared at VITA sites since the Treasury Inspector General for Tax Administration (TIGTA) performed its first VITA Program review during the 2004 Filing Season.

I am pleased your report highlights the positive actions taken by SPEC to address concerns raised during prior TIGTA reviews. Specifically, for the 2006 Filing Season, SPEC implemented the comprehensive Volunteer Return Preparation Program Quality Improvement Plan. As you indicate, the Quality Improvement Plan follows an integrated approach that includes site reviews, shopping reviews, and tax return reviews. I am also pleased your report recognizes that SPEC's use of established processes has increased its ability to oversee and monitor the VITA program and that SPEC has initiated new efforts to further improve communications with its partners. These efforts include holding SPEC function and partner conference calls, issuing quality alerts, creating a SPEC partner/volunteer public webpage, and issuing return reviewer alerts.

Although SPEC has made tremendous progress, I realize challenges remain and our processes can be improved. Your report notes significant barriers continue to reduce SPEC's ability to provide quality customer service at VITA sites and measure



Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program

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the accuracy of prepared tax returns. However, while the overall accuracy results of tax returns prepared by VITA volunteers were 42 percent for 2006, that is up from zero percent in 2004 and 34 percent in 2005. It is also important to point out that one of the two scenarios used by TIGTA (Scenario 2) resulted in an accuracy rate of 72 percent.

We are optimistic the Quality Improvement Plan for Fiscal Year (FY) 2007 will drive further improvements in the VITA Program. In accordance with this plan, SPEC will implement shopping reviews using scenarios representative of its customer base, revamp training materials and tools, and evaluate the role it plays in partner/volunteer training processes to ensure training is accurate. Also, SPEC will take steps to ensure accuracy results are verifiable and validated.

Although your report recognizes SPEC developed procedures and controls as part of its FY 2006 Quality Improvement Plan, you also state certain procedures are not being followed and not all controls are effective. As you suggest, this is understandable since the Quality Improvement Plan is still in the early stages of implementation and, as such, it is reasonable to assume there would be a considerable learning curve. Further, I appreciate you acknowledging that many of your concerns are inherent to a volunteer program, particularly considering the complexity of the tax system and the often-complicated family situations of the taxpayers we serve.

While I generally agree with your recommendations, I do not agree with them in their entirety. For example, with respect to Recommendation 1, rather than require the taxpayer to prepare the Intake/Interview sheet (Form 13614) to ensure it is accurately prepared, we believe completion of this form is a shared responsibility of both the trained volunteer return preparer and the taxpayer. For the 2007 Filing Season, the taxpayer will complete the identifying information and the volunteer return preparer will complete the tax return information. We believe this approach will achieve greater return accuracy. With respect to Recommendation 3, maintaining source documentation used to prepare tax returns would erode effective partner relations by significantly increasing operational burden and costs, and retaining such sensitive documents would require considerable security infrastructure. Finally, SPEC will strengthen its process of selecting tax returns for review; however, I do not agree reviews should be unannounced since announced visits promote collaborative ownership of quality service and do not skew results of return selection or return accuracy.

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 Ellen M. Cimaglia, Director, Stakeholder Partnerships, Education and Communication, at (404) 338-7104.

Attachment



Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program

Attachment

RECOMMENDATION 1

Require VITA sites to use the Form 13614, with each site having the option to append the Forms 13614 with supplemental questions as deemed necessary. In addition, require preparation of Form 13614 by the taxpayer to ensure the sheet is accurately prepared.

CORRECTIVE ACTIONS

SPEC will continue to require each site to use Form 13614 or the partner's equivalent to prompt return preparers to ask questions necessary for accurate completion of the return.

In addition, during the FY 2007 Filing Season, SPEC will revise Form 13614, to require completion of identifying information by the taxpayer and completion of return information by the return preparer. We believe completion of this form is a shared responsibility of both the trained volunteer return preparer and the taxpayer and will achieve greater return accuracy.

IMPLEMENTATION DATE:

November 15, 2006.

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTIONS MONITORING PLAN

SPEC will continue to use site and return review to monitor partners' use of Form 13614 or their equivalent, and adherence to policy and procedures.

RECOMMENDATION 2

Ensure training continues to emphasize the need to use the various quality assurance tools; including using the intake sheet, referring to reference guides, and ensuring all tax returns are subject to required quality review. In addition, develop oversight processes to ensure tools are used, which may include requiring volunteers, and taxpayers to initial Form 13614 confirming volunteers reviewed the information with the taxpayers.

CORRECTIVE ACTIONS

SPEC will revise its training materials to include screen prints from the various tools mentioned in the above recommendation and promote the importance of effective interviewing/probing during the return preparation and review process.

SPEC will develop a quality review video to train volunteers in conducting an effective quality review of returns prepared.



Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program

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SPEC will revise tools (forms, training, and guidance documents) used in the Volunteer Return Preparation Program Quality Improvement Plan based on findings from reviews, partner and employee feedback, and TIGTA results.

SPEC will ensure training is accurate and communications reflect SPEC's policies and procedures.

SPEC will continue to emphasize the requirement that all tax returns are subject to quality review. However, since Form 13614 is a tool and not the return, and retention of the form is not required, signatures or initials by the volunteers or taxpayers are not necessary.

IMPLEMENTATION DATE:
November 15, 2006

RESPONSIBLE OFFICIAL
Director, SPEC, Wage and Investment Division

CORRECTIVE ACTIONS MONITORING PLAN
SPEC is developing various methods of evaluating training effectiveness during the training process. In addition, SPEC will also use the results found during site, return, and shopping reviews.

RECOMMENDATION 3
Establish a process to ensure accuracy results are verifiable and validated. This process should ensure source documentation is maintained to support tax reviews. In addition, to improve the integrity of the review process, ensure reviews are unannounced, and tax returns are randomly selected by the SPEC function employee performing the review.

CORRECTIVE ACTIONS
SPEC will establish an independent process to validate the accuracy reported, as well as provide systemic improvements.

SPEC will implement shopping reviews that use scenarios representative of its customer base to assess the customer experience. The results will be used in communicating opportunities for improvement and to enhance training.

Finally, SPEC will strengthen the process for selection of returns for review by SPEC function employees.

However, we do not agree with requiring partners to maintain source documents used by volunteers in preparing tax returns. This would likely erode effective IRS-partner relations by significantly increasing partner operational burden and costs, as well as require considerable new security infrastructure. We also do not agree that reviews



Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program

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should be unannounced, since announced visits promote collaborative ownership of quality service. There is no evidence that announced visits skew return selection or accuracy results any more or less than unannounced visits.

IMPLEMENTATION DATE:

November 15, 2006.

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTIONS MONITORING PLAN

The management review process and shopping visits will be used to validate the accuracy being reported.

RECOMMENDATION 4

Develop a process to periodically verify information is accurately entered from Form 13715 into the system used by toll-free telephone assistors.

CORRECTIVE ACTIONS

SPEC will continue to use the validation process developed during the 2006 Filing Season and will further enhance the process by including the following:

- SPEC management will be required to validate input in the SPEC Taxpayer Assistance Reporting System (STARS) site module and certify its accuracy.
- Form 13715 will require the initials of the employee inputting the data in STARS and of management's concurrence with its accuracy.

IMPLEMENTATION DATE:

November 15, 2006

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTIONS MONITORING PLAN

Validation of STARS entries will be included in the operational reviews conducted annually and documented in the operational review report.