



*Enhancements Could Be Made to
Minimize Internal Revenue Service
Employee and Volunteer Return
Preparation Program Participant
Integrity Issues*

November 2005

Reference Number: 2006-40-005

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.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

November 1, 2005

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT
DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Enhancements Could Be Made to Minimize
Internal Revenue Service Employee and Volunteer Return Preparation
Program Participant Integrity Issues (Audit # 200540015)
(b)(3):26 U.S.C. 6103,(b)(7)(C)

This report presents the results of our review to assess the adequacy of controls and procedures related to an [redacted] the Convenience Check Program and the [redacted] in the Volunteer Return Preparation Program (VRPP).¹

(b)(3):26 U.S.C. 6103,(b)(7)(C)

Synopsis

The Treasury Inspector General for Tax Administration (TIGTA) initiated this review to assess the controls and procedures that may have facilitated integrity violations by [redacted]

(b)(3):26 U.S.C. 6103,(b)(7)(C)

¹ This program provides free tax return preparation for eligible taxpayers. It includes the Volunteer Income Tax Assistance and Tax Counseling for the Elderly Programs.



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The SB/SE Division Convenience Check Processing Guide requires Lien Imprest Fund Cashiers to reconcile their Citibank statements with their check register on a monthly basis. The cashier is to submit the reconciliation statement for review and approval by the Approving Official, who will then forward it to a Budget Analyst for final review. However, the Guide does not require Lien Imprest Fund Cashiers to submit any supporting source documentation with the monthly statement reconciliation. (b)(3):26 U.S.C. 6103,(b)(7)(C)

Requiring Lien Imprest Fund Cashiers to submit supporting source documentation may deter dishonest employees from preparing unauthorized checks. In addition to the Lien Program, the IRS also uses Convenience Checks in the Imprest Fund, the Procurement Program, the Property Appraisal and Liquidation Specialist Program, and the Public Transportation Subsidy Program. As a result, we believe Approving Officials should be required to review supporting source documentation in each of the programs that process Convenience Checks.

In addition, current Volunteer Income Tax Assistance (VITA)/TCE training materials provide minimal warnings on accepting payments for volunteer activities but do not adequately address the misuse of Government computers. As the IRS moves away from return preparation, it needs to take action to ensure VITA/TCE participants are cautioned about misusing Government computers and accepting payments for volunteer activities.

Recommendations

We recommended the Chief, Agency-Wide Shared Services, revise the Lien Program procedures and other Convenience Check Program procedures to require Approving Officials receive and review supporting source documentation during the monthly Citibank statement reconciliations. We also recommended the Commissioner, Wage and Investment Division, enhance existing training materials and information provided to VITA/TCE participants, reminding them that Government computers should not be used for personal business and that payments should not be accepted for preparing tax returns. In addition, VITA/TCE participant training should include this specific case as an example of activities that are contrary to VRPP policies.

Response

IRS management agreed with both recommendations. All actions are approved and in place to resolve the first recommendation. Convenience Check cardholders are required to provide supporting documentation for all payments appearing on their monthly Citibank statement and training programs have been updated to reflect that requirement. In addition, program guidelines for Approving Officials have been updated to provide additional guidance for conducting



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monthly reviews. Specifically, Approving Officials are now required to conduct detailed reviews and follow-up on any payment that is not specifically written to a county clerk's office.

To address the second recommendation, a newly designed publication, Welcome to the IRS Computer Loan Program (Publication 4473), will be included with each computer provided to VITA/TCE participants. Although the publication has already been printed this year, it will be updated in 2006 to further emphasize the misuse of Government computers. In addition, while various training materials presently reinforce the prohibition of accepting payments for preparing tax returns, this specific case will be included in VITA/TCE participant training as an example of an activity that is contrary to VRPP policies. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Scott A. Macfarlane, Acting Assistant Inspector General for Audit (Wage and Investment Income Programs), at (925) 210-7027, ext. 102.



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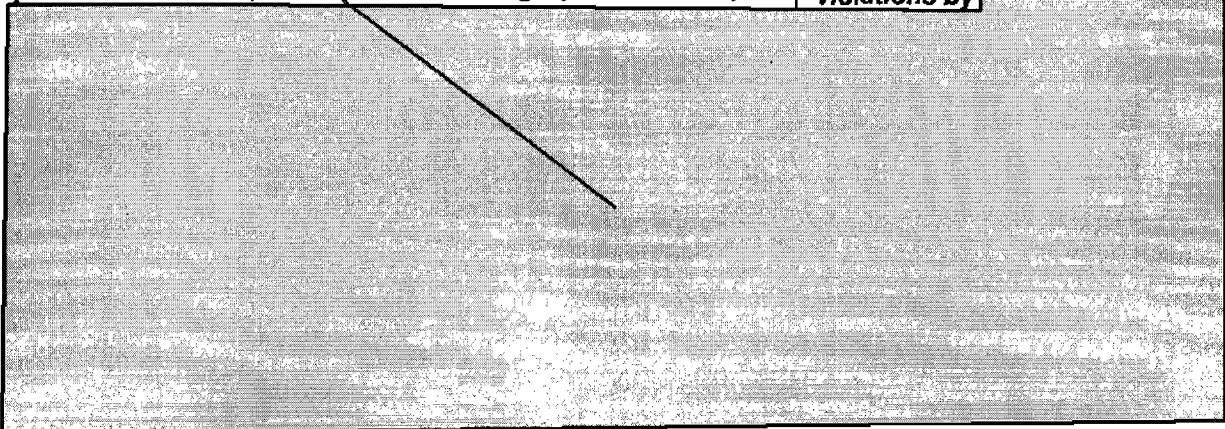
Enhancements Could Be Made to Minimize Internal Revenue Service Employee and Volunteer Return Preparation Program Participant Integrity Issues

(b)(3):26 U.S.C. 6103,(b)(7)(C)

Background

The Treasury Inspector General for Tax Administration (TIGTA) initiated this review to assess the controls and procedures that may have facilitated integrity violations by

This review was initiated in response to integrity violations by



(b)(3):26 U.S.C. 6103,(b)(7)(C)

Volunteer Income Tax Assistance (VITA)/TCE participants are required to annually sign a VRPP Standards of Conduct statement. In addition, VITA/TCE participants who are provided with Government computers are required to sign a Property Loan Agreement.

(b)(3):26 U.S.C. 6103,(b)(7)(C)

We limited our review to evaluating the controls and procedures related to the



the Convenience Check Program and the



(b)(3):26 U.S.C. 6103,(b)(7)(C)

(b)(3):26 U.S.C. 6103,(b)(7)(C)

This review was performed in the SB/SE Division Headquarters in Washington, D.C.; the Wage and Investment (W&I) Division Headquarters in Atlanta, Georgia; and the IRS' Area-Wide Shared Services function offices in Atlanta, Georgia; Boston, Massachusetts; Buffalo, New York; Covington, Kentucky; Indianapolis, Indiana; Philadelphia, Pennsylvania; and Seattle, Washington. The review was performed during the period February through July 2005. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹ This program provides free tax return preparation for eligible taxpayers. It includes the Volunteer Income Tax Assistance Program and the Tax Counseling for the Elderly Program.

² This system supports revenue officers in field offices by tracking lien assignments and lien due dates.

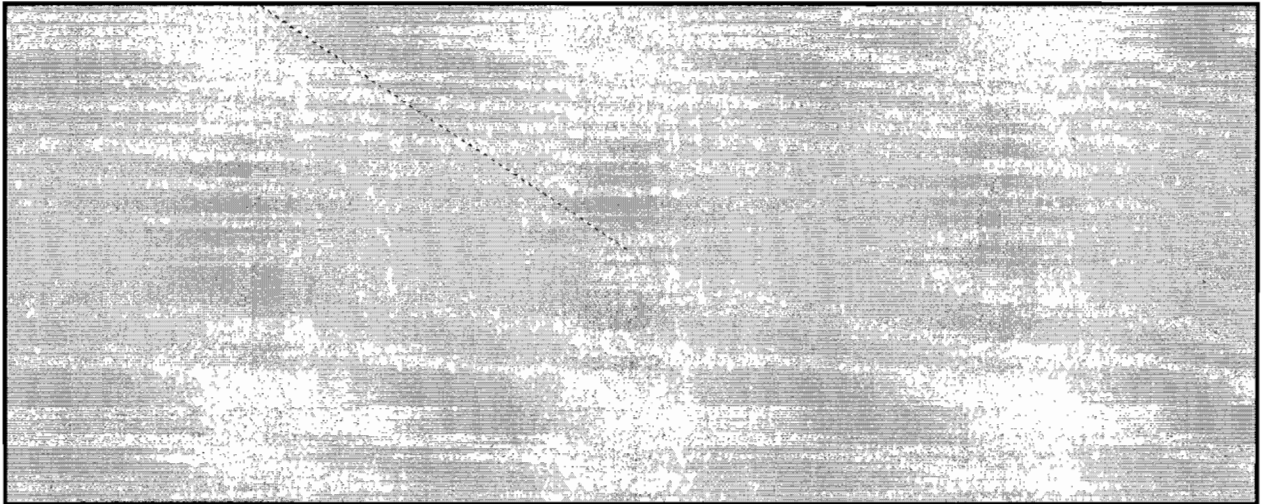


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(b)(3):26 U.S.C.
6103,(b)(7)(C)

Results of Review

Controls Could Be Enhanced to Help Identify and Deter Unauthorized Convenience Checks



(b)(3):26 U.S.C.
6103,(b)(7)(C) The SB/SE Division Convenience Check Processing Guide required the Lien Imprest Fund Cashiers to reconcile their Citibank statements with their check register on a monthly basis.

(b)(3):26 U.S.C.
6103,(b)(7)(C) The Guide did not require Lien Imprest Fund Cashiers to submit any supporting source documentation with the monthly statement reconciliation.

During Fiscal Year (FY) 2005, the SB/SE Division began centralizing the processing of Convenience Checks for the Lien Program in its Cincinnati Campus³ in Covington, Kentucky. In FY 2004, there were 32 primary and backup Lien Imprest Fund Cashiers nationwide that wrote 27,242 Convenience Checks totaling approximately \$2.8 million. The controls outlined in the SB/SE Division Convenience Check Processing Guide are to be incorporated in the Internal Revenue Manual (IRM).

³ The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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The draft Administrative Imprest Fund Handbook in the IRM states the Approving Official will ensure "supporting documentation for each transaction is appropriate and properly completed." However, during the monthly reconciliation of the Citibank statements, the Approving Official still does not receive any of the supporting source documentation that could be used to identify suspicious checks. The IRS does require Approving Officials to have supporting documents when reconciling Citibank statements from the Purchase Card Program used by the IRS to procure small purchases.

(b)(3):26 U.S.C.
6103,(b)(7)(C)

[REDACTED] Requiring the Lien Imprest Fund Cashiers to submit supporting source documentation may deter dishonest employees from preparing unauthorized checks. In addition to the Lien Program, the IRS also uses Convenience Checks in the Imprest Fund, the Procurement Program, the Property Appraisal and Liquidation Specialist Program, and the Public Transportation Subsidy Program. As a result, we believe Approving Officials should be required to review supporting source documentation in each of the Convenience Check processing programs.

Recommendation

Recommendation 1: To help ensure all Convenience Checks that are issued are authorized, the Chief, Agency-Wide Shared Services, should revise the Lien Program procedures and the other Convenience Check Programs procedures to require Approving Officials be provided supporting source documentation when reviewing monthly Citibank statement reconciliations.

Management's Response: All actions are approved and in place to resolve this recommendation. Convenience Check cardholders are required to provide supporting documentation for all payments appearing on their monthly Citibank statement and training programs have been updated to reflect that requirement. In addition, program guidelines for Approving Officials have been updated to provide additional guidance for conducting monthly reviews. Specifically, Approving Officials are now required to conduct detailed reviews and follow-up on any payment that is not specifically written to a county clerk's office.

Training Materials Could Be Enhanced to Help Deter Inappropriate Activities by Volunteer Return Preparation Program Participants

(b)(3):26 U.S.C. 6103,(b)(7)(C)

Although the local Inventory Control and Self-Certification Form ensured VITA/TCE participants in the [REDACTED] area were aware that Government computers in the VRPP were not to be used for personal business, [REDACTED]

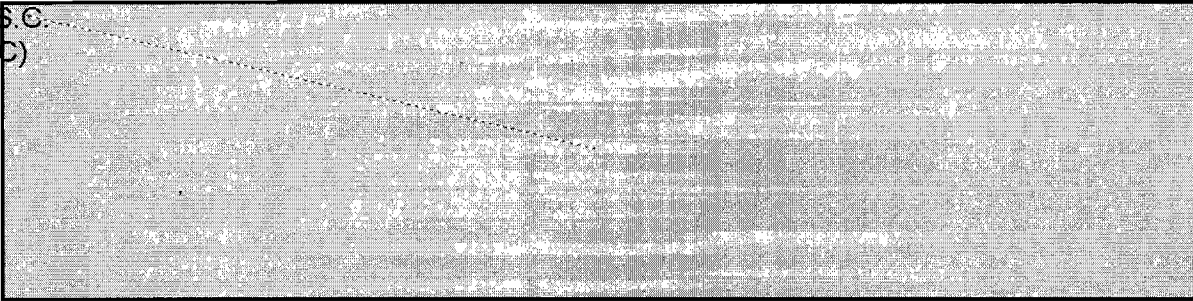
(b)(3):26 U.S.C.
6103,(b)(7)(C)

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(b)(3):26 U.S.C. 6103,(b)(7)(C)



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(b)(3):26 U.S.C.
6103,(b)(7)(C)



Each year, VITA/TCE participants are required to sign the VRPP Standards of Conduct Form (Form 13615) that limits their activities to free voluntary tax return preparation. Specifically, the Standards of Conduct states:

*I will not solicit business from taxpayers I assist.
I will not accept payment for the services I provide.*

During the 2003 Filing Season,⁴ VITA/TCE participants receiving Government computers were also required to sign an Inventory Control and Self-Certification Form that limited the use of these computers to voluntary tax preparation.

When the responsibility for controlling the Government computers used in the VRPP was centralized at the end of the 2004 Filing Season, the Modernization and Information Technology Services Division's Computer Depot at the Brookhaven Campus in Holtsville, New York, took responsibility for all VRPP computers nationwide. The W&I Division Stakeholder Partnerships, Education, and Communication function developed guidance and replaced the Inventory Control and Self-Certification Form with the Property Loan Agreement for the VITA/TCE participants to sign when provided a Government computer. The Agreement clearly outlines the equipment may be used only for volunteer electronic tax return preparation and filing and other related activities associated with supporting the volunteer program.

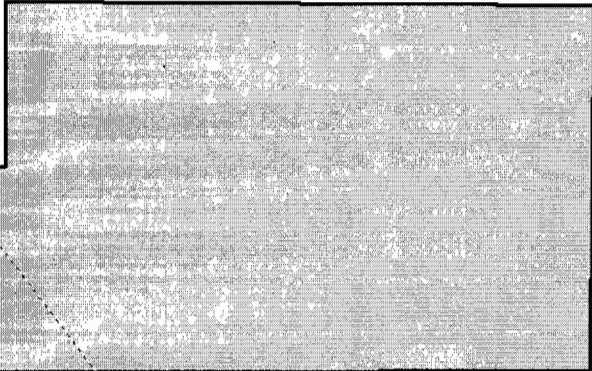
As the IRS moves away from return preparation, it needs to take action to ensure VITA/TCE participants are adequately cautioned about misusing Government computers and accepting payments for volunteer activities. Currently, VITA/TCE training materials provide minimal warnings on accepting payments for volunteer activities, but do not adequately address the misuse of Government computers. We believe the IRS should build on existing training materials and enhance the information provided to VITA/TCE participants to remind them that Government computers should not be used for personal business and that VITA/TCE participants should not accept payment from the public for preparing tax returns. In addition, we believe VITA/TCE participant training should include this specific case as an example of activities that are contrary to VRPP policies.

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



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The success of the VRPP is dependent upon the reputation it creates in the public forum. Taxpayer confidence in the program will decrease as VITA/TCE participant misdeeds are brought to light in the newspapers and on television.



(b)(3):26 U.S.C. 6103,(b)(7)(C)

Recommendation

Recommendation 2: To preserve the good reputation of the VRPP, the Commissioner, W&I Division, should enhance the training materials and information provided to VITA/TCE participants reminding them that Government computers should not be used for personal business and that payments should not be accepted for preparing tax returns. In addition, VITA/TCE participant training should include this specific case as an example of activities that are contrary to VRPP policies.

Management's Response: A newly designed publication, Welcome to the IRS Computer Loan Program (Publication 4473), will be included with each computer provided to VITA/TCE participants. Although the publication has already been printed this year, it will be updated in 2006 to further emphasize the misuse of Government computers. In addition, while various training materials presently reinforce the prohibition of accepting payments for preparing tax returns, this specific case will be included in VITA/TCE participant training as an example of an activity that is contrary to VRPP policies.



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(b)(3):26 U.S.C. 6103,(b)(7)(C)

Appendix I

Detailed Objective, Scope, and Methodology

(b)(3):26 U.S.C. 6103,(b)(7)(C)

(b)(3):26 U.S.C. 6103,(b)(7)(C)

The objective of our review was to assess the adequacy of controls and procedures related to an [redacted] the Convenience Check Program and the [redacted] the Volunteer Return Preparation Program (VRPP).¹ To accomplish our objective, we:

(b)(3):26 U.S.C. 6103,(b)(7)(C)

I. Determined if controls over the Convenience Check Program would timely identify

(b)(3):26 U.S.C. 6103,(b)(7)(C)

A. Interviewed the Small Business/Self-Employed (SB/SE) Division Level IV Coordinator, the Agency-Wide Shared Services (AWSS) Financial Services Manager responsible for the Convenience Check Program, [redacted]

(b)(3):26 U.S.C. 6103,(b)(7)(C)

[redacted] to identify current and any planned changes to controls over the Convenience Check Program.

- 1. Obtained, reviewed, and analyzed existing Convenience Check Program policies and guidelines to determine the sufficiency of current controls.
- 2. Obtained, reviewed, and analyzed any draft policies and guidelines concerning the SB/SE Division's plans to centralize the Convenience Check Program to identify any weaknesses in the planned controls.

B. Interviewed the AWSS Financial Services Manager and various program managers responsible for the Convenience Check Program to determine the status of the planned centralization of the Convenience Check Program.

C. Obtained documentation from the AWSS Financial Services Manager responsible for the Convenience Check Program on the number of checking transactions and the related dollar amounts processed through the Convenience Check Program during Fiscal Year (FY) 2004.

(b)(3):26 U.S.C. 6103,(b)(7)(C)

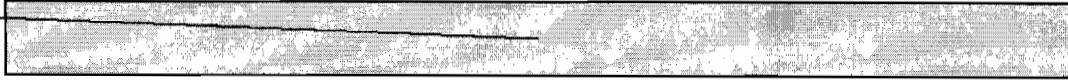
[redacted]

¹ This program provides free tax return preparation for eligible taxpayers. It includes the Voluntary Income Tax Assistance Program and the Tax Counseling for the Elderly Program.



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II. Determined if existing controls will deter Volunteer Income Tax Assistance (VITA)/Tax Counseling for the Elderly (TCE) participants from misusing VRPP computers for personal use.

A. Interviewed the national Wage and Investment (W&I) Division VRPP Manager and Seattle VRPP management contacts and identified:

1. The process by which Government computers were provided to VITA/TCE participants during FYs 2003, 2004, and 2005.
2. What VRPP computer usage policies or guidelines currently exist that prohibit the personal use of Government computers.

B. Obtained from the national W&I Division VRPP Manager and Seattle VRPP management contacts any national and local VRPP computer usage policies, guidelines, computer loan agreements, and Volunteer Agreements for FYs 2003, 2004, and 2005.

C. Obtained documentation from the national W&I Division VRPP Manager on the number of Government computers provided to VRPP participants during FY 2004.

D. Reviewed and analyzed any national and local VRPP computer usage policies, guidelines, computer loan agreements, and Volunteer Agreements to:

1. Determine what computer usage policies, guidelines, computer loan agreements, and Volunteer Agreements were in place during FY 2003

(b)(3):26 U.S.C.
6103,(b)(7)(C)



(b)(3):26 U.S.C. 6103,(b)(7)(C)

2. Determine what computer usage policies, guidelines, computer loan agreements, and Volunteer Agreements were in place for FYs 2004 and 2005.

E. Compared the policies, guidelines, computer loan agreements, and Volunteer Agreements to determine if:

(b)(3):26 U.S.C.
6103,(b)(7)(C)

1. Past guidelines were too vague and, as a result,



2. Current guidelines are specific enough to prohibit the misuse of Government computers and/or if the wording could be reinforced.

(b)(3):26 U.S.C.
6103,(b)(7)(C)



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Appendix II

Major Contributors to This Report

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)
Scott A. Macfarlane, Acting Assistant Inspector General for Audit (Wage and Investment Income Programs)
Mary V. Baker, Director
Bryce Kisler, Audit Manager
James Traynor, Lead Auditor
Kenneth L. Carlson, Jr., Senior Auditor
Sylvia Sloan-Copeland, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Chief Financial Officer, Department of the Treasury
Commissioner, Small Business/Self-Employed Division SE:S
Commissioner, Wage and Investment Division SE:W
Chief, Agency-Wide Shared Services OS:A
Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division
SE:S:CLD
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, Employee Support Services, Agency-Wide Shared Services OS:A:EES
Acting Director, Strategy and Finance, Wage and Investment Division SE:W:S
Director, Stakeholder Partnerships, Education, and Communication, Wage and Investment
Division SE:W:CAR:SPEC
Associate Director, Credit Card Services, Agency-Wide Shared Services OS:A:ESS:CCS
Chief Counsel CC
National Taxpayer Advocate TA



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Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

RECEIVED
SEP 23 2005

September 23, 2005

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Janis Landis *Janis Landis*
Director, Employee Support Services
Agency-Wide Shared Services

SUBJECT: Draft Audit Report – Enhancements Could Be Made to
Minimize Internal Revenue Service Employee and Volunteer
Return Preparation Program Participant Integrity Issues
(Audit #260540015)

We reviewed the subject draft report and our response to the recommendations is attached. We completed the first recommendation and the Wage & Investment Division continues to work recommendation 2. By implementing these actions, we believe that our controls and procedures will be strengthened and integrity issues minimized.

If you have any questions, please call me at (212) 298-2352, or Beth Shepherd, Associate Director, Credit Card Services, at (317) 685-7741. Questions concerning recommendation 2 should be addressed to Carol Spencer at (404) 338-7137. For questions on audit follow-up and liaison, please call Greg Rehak at (202) 622-3702.

Attachment

cc: Commissioner, Wage & Investment Division



Enhancements Could Be Made to Minimize Internal Revenue Service Employee and Volunteer Return Preparation Program Participant Integrity Issues

ATTACHMENT

RECOMMENDATION 1: To help ensure all Convenience Checks that are issued are authorized, the Chief, Agency-Wide Shared Services (AWSS) should revise the Lien Program procedures and the other Convenience Check Programs procedures to require Approving Officials be provided supporting source documentation when reviewing monthly Citibank statement reconciliations.

Rationale for Closure: All actions are approved and in place to resolve this recommendation. Convenience Check cardholders are required to provide supporting documentation for all payments appearing on their monthly Citibank statement. AWSS revised Lien Convenience Check Cardholder training, Purchase Card Approving Official training, and Refresher training to reflect that requirement. Revisions have been forwarded to the vendor responsible for updating IRS on-line training courses on the Enterprise Learning Management System (ELMS), and will be on-line no later than October 12, 2005.

Program guidelines for Lien convenience check Approving Officials have been updated to provide additional guidance for conducting monthly reviews. Specifically, Approving Officials are now required to conduct detailed reviews and follow-up on any payment that is not specifically written to a county clerk's office.

A communication strategy is near completion to advise all program participants of the revised requirements and program expectations. The strategy calls for simultaneously releasing information when the revised ELMS training modules are implemented.

Completed: September 19, 2005

Responsible Official: Director, Employee Support Services, Agency-Wide Shared Services



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RECOMMENDATION 2: To preserve the good reputation of the VRPP, the Commissioner, W&I Division, should enhance the training materials and information provided to VITA/TCE participants reminding them that Government computers should not be used for personal business and that payments should not be accepted for preparing tax returns. In addition, VITA/TCE participant training should include this specific case as an example of activities that are contrary to VRPP policies.

Corrective Actions:

- a) Although various training materials presently reinforce the prohibition of accepting payments for preparing tax returns, this specific case will be included in VITA/TCE participant training as an example of an activity that is contrary to VRPP policies.
- b) Newly designed Publication 4473, *Welcome to the IRS Computer Loan Program*, will be included with each computer provided to VITA/TCE participants. Although the Publication has already been printed this year, it will be updated in 2008 to further emphasize the misuse of Government computers.

Implementation Date: a) May 15, 2008, and b) November, 15, 2008

Responsible Official: Director, Stakeholder Partnerships, Education and Communication, Wage and Investment Division