



Treasury Inspector General for Tax Administration

IMPROVED CONTROLS OVER GRANTS PROVIDED TO LOW INCOME TAXPAYER CLINICS WOULD LOWER THE RISK OF THE INAPPROPRIATE USE OF FEDERAL GOVERNMENT FUNDS

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Highlights

Highlights of Report Number: 2008-10-142 to the National Taxpayer Advocate.

IMPACT ON TAXPAYERS

For the 2006 grant cycle, the Internal Revenue Service (IRS) awarded \$8 million in Federal Government grants to 149 taxpayer clinics. These clinics provide education to taxpayers who speak English as a second language and assist low-income taxpayers involved in controversies with the IRS by protecting their rights and helping to ensure fair results. However, controls over the financial management of the Low Income Taxpayer Clinic (LITC) program need to be improved. Without adequate controls, the IRS cannot ensure that the clinics are properly using Federal grant monies.

WHY TIGTA DID THE AUDIT

Our objective was to determine whether clinics participating in the LITC program complied with the grant terms, conditions, and the applicable laws and regulations related to the management of Federal Government funds.

WHAT TIGTA FOUND

Controls over the financial management of the LITC program need to be improved in three key areas. First, prompt follow-up is needed when clinics fail to file all required year-end financial and program information. Ninety-eight (66 percent) of the 149 clinics that were awarded grants for the 2006 grant cycle had not submitted all required year-end financial and program information as of August 2007, 4 months after the due date. Our subsequent review of this area in November 2007 indicated that the number of clinics that had not submitted all required year-end information had been reduced to 21. Further analysis identified three clinics which received grant funds during the 2006 grant cycle but had not provided the IRS with any information regarding how these funds were spent. The total

amount of funds disbursed to these 3 clinics during the 2005 and/or 2006 grant cycles was \$43,577.

Second, a program of regularly scheduled reviews of clinic year-end financial information needs to be implemented. TIGTA did not find any evidence that a review of a clinic's reported expenditures and matching contributions was performed to ensure that reported expenses were adequately supported and allowable for any of the clinics that received funds during the 2006 grant cycle.

Finally, additional guidance is needed to ensure that clinics are properly managing and reporting on their use of grant funds. Seven (58 percent) of the 12 clinics sampled reported expenses or matching contributions on their 2006 year-end financial report that were not supported by complete and reliable documentation or were not allowable expenses.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the National Taxpayer Advocate 1) implement procedures to address clinics that cannot, or will not, document that grant funds were used appropriately, 2) take appropriate action to address the 3 clinics which failed to provide support for \$43,577 in grant funds received, and 3) implement a process for conducting random reviews of clinics' reported financial information. TIGTA also recommended that the National Taxpayer Advocate revise and expand the instructions provided to clinics participating in the LITC program and take appropriate follow-up action regarding expenditures reported by clinics that are not allowable.

In their response to the report, IRS officials stated that they have implemented procedures for following up with grantees that have not filed required reports and are considering issuing demand letters to the three clinics identified. In addition, the IRS plans to perform a random sampling of invoices and receipts during site assistance visits. The IRS also plans to expand program instructions and guidelines. Finally, the IRS plans to address the unallowable expenditures of grant funds and make clinics aware of the consequences for unallowable expenses at the next annual LITC conference.

Because site assistance visits are typically performed before clinics are required to submit any financial information regarding how grant funds were spent, these reviews alone do not provide sufficient assurance that financial information reported by clinics is accurate. As such, the National Taxpayer Advocate should reconsider conducting periodic random reviews of the financial information reported by clinics.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200810142fr.pdf>

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