

**Improvements Are Needed to Ensure Tax
Returns Are Prepared Correctly at Internal
Revenue Service Volunteer Income Tax
Assistance Sites**

August 2004

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DEPARTMENT OF THE TREASURY
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INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 31, 2004

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

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FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites (Audit # 200440039)

This report presents the results of our review of Internal Revenue Service (IRS) Volunteer Income Tax Assistance (VITA) sites. The overall objective of this review was to determine whether volunteers at IRS VITA sites¹ prepare accurate tax returns based on facts provided by taxpayers. Our testing did not involve volunteer tax preparation sites associated with the military and Tax Counseling for the Elderly.

The Tax Reform Act of 1969² resulted in the formation of the VITA Program. Emphasis has continually focused on expanding the VITA Program through increased recruitment of social service, non-profit, corporate, financial, education, and government organizations; involvement of the military on a national level; and expansion of assistance provided to the limited-English proficient community. VITA sites are often located at neighborhood centers, libraries, schools, churches, and shopping malls.

The VITA Program plays a vital role in helping the IRS achieve its goal of improving taxpayer service and facilitating participation in the tax system with sectors of the public. The Program provides free Federal tax return preparation and electronic filing (*e-filing*) to target segments of individual taxpayers, including low-income,³ elderly, disabled, and limited-English proficient taxpayers. These taxpayers are frequently involved in intricate

¹ For the purposes of this report, the terms "VITA site" or "volunteer site" refer to community-based VITA sites.

² Pub. L. No. 91-172, 83 Stat. 487 (codified as amended in scattered sections of 26 U.S.C. and 42 U.S.C.).

³ For the VITA Program, low- to moderate-income taxpayers are defined as those taxpayers with income levels at or below the Earned Income Tax Credit (EITC) guidelines. For Tax Year 2003, the maximum income level for the EITC was \$34,692.

family situations that make it difficult to correctly understand and apply the complex tax law.

In 1970, the VITA Program assisted 104,000 taxpayers by preparing tax returns and/or answering questions. In Calendar Year 2003,⁴ the Program assisted 843,803⁵ taxpayers at 3,791 VITA sites located around the country. The tax returns filed by these 843,803 taxpayers involved refunds of approximately \$996 million and liabilities of approximately \$66 million. In addition, volunteers at VITA sites prepared 20,958 tax returns in which the taxpayers had no refund or liability.

In an attempt to have tax returns prepared, from February through April 2004 Treasury Inspector General for Tax Administration auditors anonymously visited 44 VITA sites nationwide acting as taxpayers and presenting facts based on scenarios designed around income reporting, filing status, exemptions, and the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC). Of the 35 tax returns prepared,⁶ none were prepared correctly. If 28 (80 percent) of these 35 tax returns had been filed, the IRS would have incorrectly refunded \$26,007. If the remaining 7 (20 percent) tax returns had been filed, taxpayers would not have received \$4,546 in tax refunds to which they were entitled.

In addition, taxpayers may not always receive accurate information on VITA site hours, services, or locations. VITA site information provided by IRS employees is not always accurate and clear as to when the site is open, the location of the site, whether an appointment is necessary, and the type(s) of language service provided.

During the review, we shared results with IRS management. In response, they quickly issued to volunteers a series of quality alerts that could be used as job aids to guide volunteers through tax law issues including the head of household filing status, the EITC, and the Advance CTC. IRS management also formed an executive-led team to address volunteer tax return quality and issued revised volunteer site review guidelines. The goal of management's actions is to improve the quality of tax returns prepared by volunteers, with a specific focus on the quality of volunteer interviews with taxpayers and the correct application of the tax law.

However, additional actions are needed before the 2005 Filing Season to ensure taxpayers receive correctly prepared tax returns and can easily locate VITA sites when using IRS-provided information. We recommended the Commissioner, Wage and Investment (W&I) Division, review the existing process of ensuring volunteers are qualified to prepare tax returns to make certain that volunteers are trained and certified.

⁴ Filing Season 2003 relates to the processing of Tax Year 2002 tax returns. This is the most recent complete year of data the IRS has for the VITA Program. The filing season is the period from January through mid-April when most individual income tax returns are filed.

⁵ The figure includes nonmilitary and military VITA-prepared tax returns. For Tax Year 2002, the IRS was unable to distinguish between returns prepared by the nonmilitary and military sites. Nonmilitary sites account for 92 percent of all VITA sites.

⁶ For 9 of the 44 visits, tax returns were not prepared because the sites were not open or had been relocated, too many taxpayers were in line ahead of the auditor, or the income in the scenarios was greater than the site's criteria.

In addition, the Commissioner, W&I Division, should develop a quality review program that ensures volunteers are correctly applying the law and ensure VITA site information, including the address, hours of service, type(s) of language service offered, and whether an appointment is needed, is current and accurate.

Management's Response: IRS management is pleased our report acknowledges the critical role the VITA Program plays in serving disadvantaged taxpayers. They agree with our findings and recommendations and have already initiated corrective actions. The IRS will emphasize the requirement for volunteer certifications prior to the 2005 Filing Season, and a site visitation checklist will include verification that all certifications for volunteers preparing returns have been received. A new automated certification system will be implemented that will improve the testing and certification process and will also facilitate electronic communications with volunteers to provide quality updates, dissemination of tax law compliance trends, and other opportunities to support volunteer efforts.

The IRS will also conduct quality reviews to determine whether required and recommended steps are being followed to ensure an accurate return and will monitor quality assurance efforts to assess whether these practices are producing the desired outcomes. Lastly, the IRS will require field offices to verify that site information is current and accurate. Management's complete response to the draft report is included as Appendix VII.

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 R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

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at Internal Revenue Service Volunteer Income Tax Assistance Sites**

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Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites

Background

Providing quality customer service is the Internal Revenue Service's (IRS) first step to taxpayer compliance. To assist taxpayers in complying with the law, the IRS offers assistance through, for example, toll-free telephone numbers, walk-in services, and the IRS Internet site, IRS.gov. Because of the complexity of the tax law, it has become even more critical for the IRS to ensure these services are available to all taxpayers.

The Volunteer Income Tax Assistance (VITA) Program plays a vital role in the IRS' goal of improving taxpayer service and facilitating participation in the tax system with sectors of the public. The Program provides free Federal tax return preparation and electronic filing (*e-filing*) to target underserved segments of individual taxpayers, including low-income,¹ elderly, disabled, and limited English-proficient taxpayers. These taxpayers are frequently involved in intricate family situations that make it difficult to correctly understand and apply the complex tax law.

The VITA Program originated in 1969 as a result of an increased emphasis on Taxpayer Education Programs due to the Tax Reform Act of 1969.² Emphasis has continually focused on expanding the VITA Program through increased recruitment of social service, non-profit, corporate, financial, education, and government organizations; involvement of the military on a national level; and expansion of assistance provided to the limited-English proficient community. VITA sites³ are often located at neighborhood centers, libraries, schools, churches, and shopping malls.

In 1970, the VITA Program assisted 104,000 taxpayers by preparing tax returns and/or answering questions. In Calendar Year (CY) 2003, the VITA Program assisted

¹ For the VITA Program, low- to moderate-income taxpayers are defined as those taxpayers with income levels at or below the Earned Income Tax Credit (EITC) guidelines. For Tax Year 2003, the maximum income level for EITC was \$34,692.

² Pub. L. No. 91-172, 83 Stat. 487 (codified as amended in scattered sections of 26 U.S.C. and 42 U.S.C.).

³ For the purposes of this report, the terms "VITA site" or "volunteer site" refer to community-based VITA sites.

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843,803⁴ taxpayers at 3,791 VITA sites located around the country. A total of 589,438 (70 percent) of the 843,803 VITA-prepared tax returns were *e-filed*; the remaining 254,365 (30 percent) were filed via paper. Table 1 provides a breakdown of Tax Year (TY) 2002 tax returns filed in CY 2003 by these 843,803 taxpayers with regards to refunds, break-even filings (no refund or tax liability), and liabilities (taxes due or owed). See Appendix IV for a breakdown of tax returns filed by state for TY 2002.

**Table 1: TY 2002
Tax Return Preparation at VITA Sites**

Number of Tax Returns			Total Dollars	
With Refunds	Breakeven	With Tax Due	Refunded	Owed
738,343	20,958	84,502	\$995,736,279	\$66,030,868

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

One of the Congress' principal objectives in enacting the IRS Restructuring and Reform Act of 1998 (RRA 98)⁵ was to mandate that the IRS do a better job of meeting the needs of its customers. As part of the RRA 98, the Congress directed the IRS to achieve a better balance between its post-filing enforcement efforts and pre-filing taxpayer assistance through education and service.

In response, the IRS reorganized its functional areas and revised its mission statement to refocus its emphasis on helping taxpayers understand and meet their tax responsibilities. As part of its restructuring efforts, the IRS created the Stakeholder Partnerships, Education and

⁴ Figure includes nonmilitary and military VITA-prepared tax returns. For Tax Year 2002, the IRS was unable to distinguish between returns prepared by the nonmilitary and military sites. Nonmilitary sites account for 92 percent of all VITA sites.

⁵ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

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Communication (SPEC)⁶ function. Oversight of the VITA Program is the responsibility of the SPEC function. Its business objectives include increasing access to VITA sites for low-income taxpayers, increasing *e-filing*, and enhancing accuracy. To accomplish this, the SPEC function provides oversight by determining policies and procedures, developing products and training material, and monitoring and managing VITA Program activity.

The VITA Program is becoming more important as the IRS reduces tax return preparation assistance in its Taxpayer Assistance Centers (TAC).⁷ Changes in the TAC criteria for tax return preparation assistance have reduced the number of returns prepared in the TACs by 10 percent from Fiscal Years 2002 to 2003. The IRS plans to continue this trend. The National Taxpayer Advocate has raised concerns in annual reports to the Congress that low-income taxpayers face numerous hurdles in obtaining free tax preparation and *e-filing*. With the reduction of tax return preparation at the TACs, the IRS expects VITA sites to supplement the service previously provided by the TACs. IRS management agrees with the National Taxpayer Advocate and will continue to be proactive in identifying locations where the maximum number of eligible taxpayers can have access to free tax return preparation services.

In an effort to ensure taxpayers who need assistance are provided with the ability to obtain this assistance, the SPEC function in concert with its partners uses data in its attempts to locate VITA sites in geographic areas consistent with where the targeted taxpayers live or work. To further expand services in local communities to a greater number of taxpayers, the SPEC function partners with social service, non-profit, corporate, financial, education, and government organizations. These various organizations are often part of a larger coalition. The SPEC function has developed approximately 230 coalitions made up of thousands of local organizations, all playing a role of bringing free tax help to

⁶ The SPEC is a functional unit within the Wage and Investment Division Customer Assistance, Relationships, and Education operating unit.

⁷ The TACs are IRS field offices offering taxpayers face-to-face tax assistance.

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their communities. These organizations include over 30,000 volunteers.

The SPEC function also developed a taxpayer assistance reporting system that includes VITA site contact information and aids in the management of the VITA sites. Site locations, hours of operation, days of operation, and the names of the site coordinators are included in this system. In addition, this information is provided to the IRS Toll-Free Customer Service function assistants and TAC employees, so they can direct taxpayers to a local VITA site.

This review was performed in the IRS Customer Assistance, Relationships, and Education function in the Wage and Investment (W&I) Division Headquarters in Atlanta, Georgia, and Territory Offices⁸ in Phoenix, Arizona; Chicago, Illinois; Baltimore, Maryland; and New York, New York, during the period January through June 2004. From February through April 2004, Treasury Inspector General for Tax Administration (TIGTA) auditors performed 44 anonymous visits to VITA sites located in 15 states and the District of Columbia. See Appendix V for the specific states visited.⁹ In an attempt to have tax returns prepared, auditors presented two scenarios designed around income reporting, filing status, exemptions, and the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC).

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.

⁸ The Territory Offices have overall responsibility for management of the VITA Program.

⁹ Our testing did not involve VITA sites associated with the military and Tax Counseling for the Elderly.

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Taxpayers May Have Tax Returns Incorrectly Prepared at Volunteer Income Tax Assistance Sites

Volunteers incorrectly prepared all 35 tax returns they prepared based on the facts in scenarios TIGTA auditors presented while making anonymous visits to 44 VITA sites.¹⁰ If 28 (80 percent) of these 35 tax returns had been filed, the IRS would have incorrectly refunded \$26,007. On the other hand, if the remaining 7 (20 percent) incorrectly prepared tax returns had been filed, the taxpayers would not have received \$4,546 in tax refunds to which they were entitled. See Appendix VI for details.

Tax returns were prepared incorrectly because volunteers did not obtain sufficient information to correctly apply the tax law

- *VITA sites did not always use intake sheets.* Intake sheets are designed to obtain key information about the taxpayer. Although the use of an intake sheet is recommended in the IRS' VITA guidelines, 15 (43 percent) of the 35 sites at which a tax return was prepared did not use them.
- *Interviewing techniques were not effective in assessing taxpayers' family situations and verifying key facts about taxpayers and their dependents.* VITA guidelines emphasize the importance of asking certain questions about taxpayers and their families to ensure tax returns are prepared correctly. Family situations are often complicated and unique. To correctly apply the complex tax law concerning filing status, exemption, and related credits, volunteers must ensure they have a complete understanding of the taxpayers' family situations.

For example, for a single taxpayer to qualify for head of household filing status,¹¹ the taxpayer must:

¹⁰ For 9 of the 44 VITA sites, tax returns were not prepared because the sites were not open or had been relocated, too many taxpayers were in line ahead of the auditor, or the income in the scenarios was greater than the site's criteria.

¹¹ If a taxpayer qualifies to file as head of household, the taxpayer's tax rate usually will be lower than the rates for single or married filing separately. In addition, the taxpayer receives a higher standard deduction than when filing as single or married filing separately.

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- Be unmarried or considered unmarried on the last day of the year.
- Have paid more than one-half of the cost of keeping up a home for the year.
- Have a qualifying person who lived with the taxpayer in the home for more than one-half of the year (except for temporary absences, such as school or business).

The requirements a taxpayer must meet to qualify for head of household filing status may not be the same as those the taxpayer must meet to claim a qualifying person as a dependent or to qualify for the EITC and/or CTC. For example, a dependent parent does not have to live with the taxpayer at all, while a foster child must live with the taxpayer all year. A foster child may also have multiple definitions, depending on which deduction or credit is being applied.

In the majority of visits, the volunteers assisting the auditors did not ask sufficient questions to determine the auditors' family situations. For example, auditors presented a scenario of a single parent who had recently moved to another state. The auditor explained that his or her son had lived with the auditor for only 5½ months in 2003. The auditor paid for the son's expenses while the son lived with the grandparents the remainder of the year. Volunteers did not always ask whether the son's living with the grandparents was a permanent or temporary situation. Some volunteers made the assumption that it was a temporary situation and prepared the return with the auditor filing as head of household instead of single, thus qualifying the auditor for the EITC. Using the same scenario, some volunteers did not always ask how long the son lived in the home with the auditor, assumed it was 12 months, and prepared the tax returns using this assumption.

Volunteers also did not verify key information to validate the identity of the auditor and the legitimacy of dependents being claimed. For example, in preparing 15 (43 percent) of the 35 tax returns, the volunteers did not use key information to validate the auditors'

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identities by asking for some type of photo identification. In preparing 6 (17 percent) of the 35 tax returns, the volunteers did not ensure the legitimacy of the dependents being claimed by requesting and reviewing Social Security cards for the dependents.

- *Volunteers did not always use the probe and response guide provided by the SPEC function.* At the completion of the IRS' training program, volunteers are provided with a guide detailing key questions to ask when attempting to determine a taxpayer's eligibility for certain credits and deductions. However, during auditor visits, volunteers generally did not refer to this guide when attempting to determine the auditors' eligibility for credits and deductions. Comparisons of the facts in the scenarios to the key questions included in the guide show that if the guide had been correctly used, the tax returns most likely would have been prepared correctly.

Table 2 shows the accuracy of the volunteers' application of the tax laws presented in the scenarios.

Table 2: Accuracy of Tax Returns by Tax Law Topic

Tax Law Topics	Eligibility Assessment	
	Correct	Incorrect
Filing Status	7	28
Dependents	27	8
EITC	13	22
CTC	24	11

Source: Anonymous visits performed by TIGTA auditors.

Tax returns were prepared incorrectly because volunteers modified the facts in the scenarios the auditors presented

For 9 (26 percent) of the 35 incorrectly prepared tax returns, volunteers modified the facts the auditors presented. The volunteers either knowingly or unintentionally made the modifications. Had these 9 returns been filed by actual taxpayers, modifications of the facts would have resulted in the receipt of net refunds that were overstated by \$7,285.

The volunteers knowingly modified the facts provided by the auditors when preparing three of the nine tax returns.

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For example, an auditor detailed on an intake sheet that his or her dependent had lived with the auditor for only 5½ months during 2003. The volunteer asked the auditor for the pen used to complete the intake sheet and changed the number of months to 6½ months. Modifying the number of months from 5½ to 6½ resulted in the auditor incorrectly qualifying for the head of household filing status and the EITC.

For the remaining six of nine tax returns, the volunteers unintentionally modified the facts provided by the auditors. For example, the auditor stated that his or her grandnephew lived with the auditor for 8 months. The electronic software package the volunteer used to *e-file* the tax return did not include the relationship of grandnephew as an option when selecting the dependent relationship. The volunteer was unaware that a grandnephew is considered a foster child for the purposes of tax law and that the foster child must live in the home for an entire 12 months for the taxpayer to be eligible for certain deductions/credits. The volunteer instead selected the dependent relationship of a nephew. As a result, the auditor was incorrectly allowed the dependent exemption, head of household filing status, and CTC. Conversely, the auditor did not receive the EITC to which he or she was entitled.

People volunteer for the VITA Program because of a desire to assist underserved taxpayers. The desire to assist was evident during our visits. Volunteers assisting auditors were helpful, courteous, and very professional. The sites themselves were well organized in handling the flow of large numbers of taxpayers that needed assistance. Helping underserved taxpayers understand and meet their tax obligations is essential to voluntary compliance. Given the complexity of the tax law, it is essential that the VITA Program ensure volunteers understand the significance of their role in the tax system and the importance of correctly applying the tax law. The IRS should ensure volunteers are properly trained on the tax law as well as on the importance of using all available tools and resources to prepare accurate returns.

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Insufficient internal controls and management oversight have resulted in the VITA Program not meeting its objective of enhancing the accuracy of tax returns

Current guidelines and procedures do not include sufficient internal controls. For example:

- Volunteers are not required to sign in at VITA sites to provide accountability as well as a means to ensure those that are preparing returns are certified as having the appropriate training.
- Volunteer sites are not required, only recommended, to use intake sheets to record key information about taxpayers. Intake sheets should include sufficient information about the taxpayer to ensure all information has been provided so the tax law can be applied correctly.
- There is no quality review process either within the sites or on a national basis to ensure the volunteers are correctly applying the tax law. The current onsite quality review system focuses on ensuring, for example, the names, addresses, and Social Security Numbers are correct, the returns are free from math errors and have been signed and dated, and the correct tax and credit(s) were selected from the appropriate table.
- Volunteer training does not stress the importance of using the probe and response guide when assessing a taxpayer's family situation.

Further, internal controls outlined in the IRS VITA Program guidelines, designed to enable IRS management at the Headquarters, Area Office, and Territory Office levels to monitor and manage program activity, are not clear or consistently followed. The seven Area Offices provide overall VITA Program directions to Territory Offices based on Program guidance from Headquarters. The 48 Territory Managers have overall responsibility for management of the VITA Program.

For example, guidelines require Territory Managers to certify that volunteers are qualified to prepare tax returns, maintain a list of volunteer names for each VITA site that has successfully passed the test, and attempt to conduct

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monitoring visits of VITA sites while open. These guidelines also provide a checklist for the Territory Managers to use to assess the performance of the VITA sites. Site managers must also ensure an onsite quality review system has been established.

However, the guidelines do not provide instructions on how the monitoring visits should be conducted and how much verification should be provided to ensure the VITA sites are running satisfactorily. For example, of the 40 sites in the 4 Territory Offices selected for testing, SPEC function employees had performed 28 monitoring visits.

- For all 28 of the monitoring visits, discussions with the 4 Territory Managers determined the SPEC function employees did not actually review certifications verifying that each volunteer was certified; instead, they just asked the VITA site coordinators if the volunteers were certified. Documentation was not available to confirm volunteers had been certified for 27 (68 percent) of 40 VITA sites.
- In 18 (64 percent) of the 28 monitoring visits, the SPEC function employees confirmed that the VITA site had a quality review system. No documentation was provided to verify that the onsite quality review system was established. In fact, the required onsite quality review process was completed in only 6 (17 percent) of the 35 VITA sites at which auditors had tax returns prepared.

During the review, we shared the results of the return preparation and Territory Office visits with IRS management. In response, management quickly issued six quality alerts to volunteers from February 17 to March 26, 2004. These alerts were issued as job aids to guide volunteers through tax law issues including the head of household filing status, the EITC, and the Advance CTC. The IRS also created an executive-led team to address volunteer tax return quality and issued revised volunteer site review guidelines. These actions will focus on the quality of volunteer interviews with taxpayers and the correct application of the tax law.

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In addition, SPEC function employees recently developed a comprehensive management information system, the SPEC Taxpayer Assistance Reporting System (STARS), to monitor and manage key aspects of the VITA Program. This system should help manage and oversee the VITA Program. However, additional actions are needed before the 2005 Filing Season to ensure taxpayers receive correctly prepared tax returns.

Overseeing a critical program that uses and is dependent on volunteers is a challenge and makes it essential that the IRS ensure its internal controls are sufficient to achieve its desired outcomes. The Government Accountability Office (formerly the General Accounting Office) states that internal control is a major part of managing an organization and is synonymous with management control. Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud; it comprises the plans, methods, and procedures used to meet missions, goals, and objectives.

However, if IRS management does not improve internal controls, including the quality review process, and improve oversight, the risk will continue that volunteers will inappropriately apply the tax law, which may result in incorrectly prepared tax returns and significant losses to the Government. For example, Table 3 provides the volume of TY 2002 tax returns prepared at VITA sites as well as the substantial amounts claimed for the EITC and CTC that could be at risk if the tax law is not applied correctly.

**Table 3: TY 2002 Tax Returns
Prepared at VITA Sites With the EITC and CTC**

Tax Returns Claiming	TY 2002	
	Total Tax Returns	Credits Claimed
EITC	179,544	\$236,468,096
CTC	161,618	\$127,542,596

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

Incorrectly prepared tax returns not only increase the risk of taxpayers receiving erroneous payments but also may create additional burden on taxpayers if the IRS later finds

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potential errors on the tax returns. For example, an analysis of the 843,803 TY 2002 tax returns prepared by VITA sites found that the IRS:

- Rejected 62,072 (11 percent) of the 589,438 *e-filed* tax returns for 1 or more reasons. The most common errors included mismatches between what was reported on the tax return and what IRS records showed for dependent names, employer names, etc. Because these errors are not immediately identified while a taxpayer is at a VITA site, correction may require the taxpayer to return to the VITA site. IRS management indicated that for TY 2002, the national rate of rejected *e-filed* individual returns was higher than for rejected *e-filed* VITA prepared tax returns.
- Identified questionable dependent claim(s) on 12,266 tax returns. Because of resource constraints, the IRS selected only 778 of these taxpayers for a correspondence examination.¹²
- Identified math errors on 22,630 tax returns (i.e., information included on the tax return was identified as incorrect). The most common errors included the EITC being calculated incorrectly and dependent names or Social Security Numbers not matching IRS records. IRS management indicated that for TY 2002 the national math error rate for all individual return types was higher than for VITA prepared tax returns.

Recommendations

The Commissioner, W&I Division, should:

1. Review the existing process for ensuring volunteers are qualified to prepare tax returns to make certain that volunteers are trained and certified.

Management's Response: The SPEC will emphasize the requirement for volunteer certifications prior to the

¹² Correspondence examinations of tax returns are done through the mail, with the IRS typically asking taxpayers for more support regarding one or two issues on the tax return.

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2005 Filing Season. SPEC's site visitation checklist will include verification that all certifications for volunteers preparing returns have been received.

The SPEC will implement a new automated certification system that will improve the testing and certification process. An automated tracking certification feature will deliver the volunteer's test scores to a central database by electronic mail and will result in a registry of certified volunteers. The automated certification function will also facilitate electronic communications with volunteers to provide quality updates, dissemination of tax law compliance trends, and other opportunities to support volunteer efforts.

2. Develop a quality review program that ensures volunteers are correctly applying the tax law.

Management's Response: The Volunteer Tax Preparation Quality Improvement Team (Quality Team) developed a plan for quality review and quality assurance. The SPEC will conduct quality reviews to determine whether required and recommended steps are being followed to ensure an accurate return. The SPEC will also monitor quality assurance efforts to assess whether these practices are producing the desired outcomes.

Taxpayers May Receive Inaccurate Information From the Internal Revenue Service About Volunteer Income Tax Assistance Sites

Taxpayers may not always receive accurate information on VITA site hours, services, or locations when calling the IRS Toll-Free Customer Service telephone number or visiting a TAC. For the majority of the VITA sites visited, the information provided by the IRS on the location of the site was found to be correct. However, there were instances in which the auditors could not visit some of the VITA sites or tax returns could not be prepared because the information on the IRS systems was incorrect. For example, of the 44 VITA sites visited:

- A VITA site located on a college campus was closed when the college was on spring break.
- A VITA site had been relocated. When the auditor arrived at the address that was available on the IRS Toll-Free Customer Service telephone number, the site was not open and there was no notification to taxpayers

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of the new location. SPEC function management informed the auditor the site had been relocated.

Auditors were also not able to get tax returns prepared when they arrived at two VITA sites because the sites:

- Prepared tax returns only for taxpayers with incomes less than \$15,150. The IRS information did not disclose this limitation.
- Prepared tax returns by appointment only. The IRS information did not disclose this limitation.

In addition, it is not always clear when VITA sites offer multilingual assistance. One VITA site showed that it provided assistance in Spanish, when in fact the site provided assistance in Spanish in addition to English. The STARS allowed for only one language to be entered; any additional languages had to be entered into a comment section. When a site offered multilingual services, only Spanish could be entered, making it appear that assistance was offered in Spanish only. SPEC function management plans to update the STARS in October 2004 to allow for multiple languages to be selected for those sites that offer multilingual services, thereby eliminating the need to enter language information in the comment section.

IRS guidelines require that SPEC Territory Offices ensure VITA site information is input timely and accurately into the IRS computer system used to control VITA sites. SPEC Territory Offices rely primarily on the VITA sites to provide information about their sites and ensure the information is current. However, VITA site managers do not always provide the IRS with updates on addresses and hours of operation.

The IRS provides VITA site contact information through the IRS Toll-Free Customer Service telephone number or at the TACs. VITA site contact information is not available on the IRS web site, IRS.gov. We previously reported this in a report issued in March 2004.¹³ In response to that report, IRS management indicated they did not plan to include

¹³ *More Could Be Done to Make It Easier for Taxpayers to Locate Taxpayer Assistance Centers* (Reference Number 2004-40-075, dated March 2004).

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VITA site information on IRS.gov. Management stated that maintaining up-to-date VITA site information would require a major commitment of resources. The IRS determined through 2002 and 2003 customer satisfaction surveys that taxpayers do not usually locate VITA sites by contacting the IRS. Instead, the majority of taxpayers that seek the assistance of VITA sites locate the sites through the volunteer coalition's community outreach efforts.

These outreach efforts are often quite extensive and specifically targeted to those individuals that have a need for the VITA Program. Territory Managers explained that volunteer coalitions advertise, for example, on posters located in subways and on buses, grocery bags, and placemats on trays at fast food restaurants. However, additional actions are needed before the 2005 Filing Season to ensure taxpayers can easily locate VITA sites when using IRS-provided information.

The IRS has made a commitment to offer customers who visit its TACs the option of having their tax returns prepared by volunteers. For these taxpayers and those who call the Toll-Free Customer Service telephone number for help with preparing their tax returns, it is important the information about the VITA sites is current and accurate. When taxpayers contact the IRS and are not provided correct information on the location and services available at a particular VITA site, they may not be able to obtain the assistance they need.

Recommendation

The Commissioner, W&I Division, should:

3. Ensure VITA site information, including the address, hours of service, type(s) of language service offered, and whether an appointment is necessary, is current and accurate.

Management's Response: The IRS will build an indicator in the STARS site module that will require field offices to verify that site information is current and accurate. Verifying site information will remain a formal requirement in the SPEC filing season readiness certification and site monitoring processes.

Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether volunteers at the Internal Revenue Service (IRS) Volunteer Income Tax Assistance (VITA) sites¹ prepare accurate tax returns based on facts provided by taxpayers. We also assessed the taxpayers' experiences when seeking assistance from VITA sites, including the ease with which taxpayers can locate VITA sites. To accomplish the objective, we:

- I. Determined the purpose, goals, and overall strategy of the VITA Program by meeting with IRS management and identifying specific roles and responsibilities within the Program.
- II. Determined if taxpayers can easily locate VITA sites by discussing how the IRS educates taxpayers on VITA sites and by reviewing IRS publications and guidance.
 - A. Identified how the IRS controls and maintains a listing of VITA sites, including addresses, hours of operation, and services provided.
 - B. Confirmed the accuracy of the information when visiting the 44 sites selected in Step III.B.
- III. Determined if the VITA sites prepared accurate tax returns based on facts provided by taxpayers.
 - A. Discussed with IRS management the methodology used to ensure tax returns prepared in the VITA sites are accurate based on information provided by taxpayers. This included steps to measure accuracy while taxpayers are present in the VITA sites.
 - B. Selected a judgmental sample of 44² VITA sites from a list of VITA sites opened at the time of our testing and attempted to have tax returns prepared based on the scenarios prepared and presented by Treasury Inspector General for Tax Administration auditors. We judgmentally selected sites in each of the seven Stakeholder Partnerships, Education and Communication (SPEC)³ Area Offices⁴ and included two states from each Area Office. Area Office 7 includes only

¹ For the purposes of this report, the term "VITA site" refers to community-based VITA sites unless otherwise noted. These VITA sites are frequently located at neighborhood centers, libraries, schools, churches, shopping malls, etc.

² The selection of 44 VITA sites was not meant to result in a statistically valid sample since we did not plan to project our results.

³ The SPEC is a functional unit within the Wage and Investment Division Customer Assistance, Relationships, and Education operating unit.

⁴ The Area Office provides overall program directions to Territory Offices based on program guidance from Headquarters.

Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites

California, which is split into Northern and Southern California. The states within each Area Office were selected using demographic information regarding the highest population of low-income or elderly taxpayers. At each VITA site, auditors:

- Presented the scenario to the VITA site volunteer. The scenarios were designed to require volunteers to make determinations relating to several tax law topics, including the correct reporting of income, filing status, exemptions, deductions, and credits. In addition, the scenarios were designed to require the volunteers to ask specific questions to determine taxpayers' eligibility for these deductions and credits and to correctly apply the tax law when preparing the tax returns.
- Determined if volunteers asked appropriate probing questions to determine eligibility for credits and deductions allowed on the tax returns.
- Documented specific information relating to the experience of the visit, including the name of the assisting volunteer, wait time, type of service(s) offered (electronic filing (*e-filing*), paper, or both), and accommodations.
- Determined if each tax return prepared by a volunteer was accurate. We noted if a return was not prepared and the reason.

- IV. Determined if volunteers were provided with the tools necessary to assist them in accurately preparing tax returns by reviewing the Internal Revenue Manual, guidelines, and training materials and holding discussions with appropriate IRS managers and employees. We judgmentally selected and visited four Territory Offices⁵ (Phoenix, Arizona; Chicago, Illinois; Baltimore, Maryland; and New York, New York). We used a judgmental sample to select the Territory Offices because we wanted to visit offices that were responsible for some of the VITA sites where we had tax returns prepared. We selected 10 VITA sites (which included a judgmental selection of the VITA sites we visited for tax return preparation and other randomly selected sites to total 10 sites) under each of the 4 Territory Offices. For each of the 40 VITA sites selected, we reviewed the Territory Offices' lists of volunteers, periodic monitoring visit reports, and volunteer certifications.
- V. Determined the quality review process established by the IRS to assist volunteers in ensuring tax returns are accurately prepared.
- VI. Determined the effect on tax revenue by identifying the number of tax returns prepared at the VITA sites that have been prepared inaccurately and the potential effect on tax revenue by obtaining a listing of the VITA sites' Electronic Filing Identifier Numbers to extract the primary Social Security Numbers of tax returns *e-filed* from VITA sites using IRS computer systems.

⁵ The Territory Offices have overall responsibility for management of the VITA Program.

**Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly
at Internal Revenue Service Volunteer Income Tax Assistance Sites**

Appendix II

Major Contributors to This Report

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)
Augusta R. Cook, Director
Frank Jones, Audit Manager
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Mary Keyes, Auditor

**Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly
at Internal Revenue Service Volunteer Income Tax Assistance Sites**

Appendix III

Report Distribution List

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Office of Management Controls OS:CFO:AR:M
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S

**Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly
at Internal Revenue Service Volunteer Income Tax Assistance Sites**

Appendix IV

**Results of Tax Returns Prepared at Volunteer Income Tax Assistance
Sites by State¹ for Tax Year 2002**

State	Paper Tax Returns	Electronic Tax Returns	Paper and Electronic Tax Returns	Refund Amount	Earned Income Tax Credit Tax Returns	Earned Income Tax Credit Amount	Child Tax Credit Returns	Child Tax Credit Amount
Alabama	1,568	6,497	8,065	\$11,018,279	1,529	\$2,325,712	2,139	\$1,798,085
Alaska	429	6,989	7,418	\$10,753,817	1,196	\$1,651,904	2,512	\$2,162,496
Arizona	3,969	15,506	19,475	\$23,099,470	3,783	\$5,476,253	4,233	\$3,409,155
Arkansas	1,169	5,878	7,047	\$8,351,891	1,387	\$1,799,707	1,412	\$1,111,509
California	24,431	35,665	60,096	\$67,087,849	13,936	\$19,490,280	11,138	\$8,674,473
Colorado	6,767	12,496	19,263	\$20,544,327	4,367	\$5,214,469	3,881	\$3,085,419
Connecticut	3,902	4,897	8,799	\$9,232,717	1,624	\$2,050,058	1,305	\$998,357
Delaware	715	3,689	4,404	\$5,924,882	1,238	\$1,802,400	977	\$720,244
District of Columbia	1,482	1,165	2,647	\$2,843,711	805	\$883,960	376	\$276,083
Florida	14,829	37,735	52,564	\$60,248,133	9,874	\$13,582,097	9,605	\$7,601,111
Georgia	4,324	19,103	23,427	\$32,333,450	4,373	\$6,743,289	5,952	\$4,848,899
Hawaii	1,381	11,330	12,711	\$21,418,305	2,122	\$3,082,640	3,909	\$3,288,922
Idaho	261	2,505	2,766	\$3,487,892	531	\$831,789	672	\$556,779
Illinois	17,322	18,434	35,756	\$39,621,528	11,830	\$15,337,727	5,349	\$3,693,077
Indiana	8,106	3,492	11,598	\$8,485,724	2,301	\$1,985,953	904	\$664,596
Iowa	1,285	1,457	2,742	\$2,382,695	665	\$733,188	316	\$238,735
Kansas	3,646	11,590	15,236	\$16,637,164	3,407	\$4,153,465	3,003	\$2,482,275
Kentucky	2,209	8,871	11,080	\$13,847,845	2,332	\$3,128,806	2,526	\$2,057,483
Louisiana	2,679	10,631	13,310	\$18,506,242	4,139	\$6,953,216	2,837	\$1,984,113
Maine	816	1,220	2,036	\$2,126,800	404	\$513,848	350	\$287,126
Maryland	4,009	9,886	13,895	\$17,219,131	1,748	\$2,187,044	3,075	\$2,546,389

¹ Including the District of Columbia and Puerto Rico.

**Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly
at Internal Revenue Service Volunteer Income Tax Assistance Sites**

State	Paper Tax Returns	Electronic Tax Returns	Paper and Electronic Tax Returns	Refund Amount	Earned Income Tax Credit Tax Returns	Earned Income Tax Credit Amount	Child Tax Credit Returns	Child Tax Credit Amount
Massachusetts	4,680	4,947	9,627	\$8,951,943	2,331	\$2,662,995	1,067	\$747,044
Michigan	6,328	3,816	10,144	\$7,060,567	3,007	\$2,811,990	522	\$329,729
Minnesota	4,799	4,346	9,145	\$7,892,862	3,315	\$3,640,148	1,098	\$728,520
Mississippi	1,424	4,116	5,540	\$6,337,913	901	\$1,176,523	1,382	\$1,151,714
Missouri	5,130	12,264	17,394	\$19,228,754	4,589	\$5,942,607	3,084	\$2,445,917
Montana	725	628	1,353	\$967,964	403	\$358,007	80	\$56,963
Nebraska	1,874	4,510	6,384	\$7,629,506	1,271	\$1,619,938	1,397	\$1,185,595
Nevada	1,453	5,189	6,642	\$7,523,240	1,009	\$1,309,612	1,285	\$1,037,887
New Hampshire	817	281	1,098	\$838,091	146	\$127,303	91	\$75,200
New Jersey	8,445	3,043	11,488	\$9,381,144	1,388	\$1,449,461	1,110	\$859,117
New Mexico	4,567	13,109	17,676	\$18,124,429	5,521	\$6,357,081	2,522	\$1,812,089
New York	13,768	20,972	34,740	\$37,419,480	10,956	\$13,645,376	4,556	\$3,168,234
North Carolina	7,938	22,478	30,416	\$35,053,379	4,861	\$6,808,561	6,224	\$4,938,613
North Dakota	430	4,363	4,793	\$6,220,059	927	\$1,265,442	1,104	\$897,569
Ohio	9,394	9,256	18,650	\$16,489,646	3,359	\$3,642,015	2,049	\$1,597,332
Oklahoma	4,276	17,816	22,092	\$25,362,324	6,007	\$8,051,669	4,314	\$3,248,428
Oregon	877	387	1,264	\$941,423	251	\$281,761	114	\$72,092
Pennsylvania	17,769	10,831	28,600	\$23,797,745	5,397	\$6,322,915	2,264	\$1,602,821
Puerto Rico	502	614	1,116	\$1,254,189	4	\$8,090	146	\$118,538
Rhode Island	507	1,001	1,508	\$1,680,668	240	\$298,229	252	\$216,205
South Carolina	3,098	10,918	14,016	\$16,679,627	2,511	\$3,214,889	2,940	\$2,342,334
South Dakota	450	3,052	3,502	\$4,740,172	965	\$1,407,355	848	\$697,658
Tennessee	2,993	13,527	16,520	\$20,570,808	3,430	\$4,810,112	3,157	\$2,395,737
Texas	24,666	46,485	71,151	\$87,356,025	16,784	\$23,492,817	15,350	\$12,019,099
Utah	1,824	7,979	9,803	\$11,155,770	2,061	\$2,755,747	1,858	\$1,475,144
Vermont	687	854	1,541	\$1,563,058	609	\$780,011	145	\$88,374
Virginia	5,355	15,711	21,066	\$28,520,095	3,023	\$3,958,413	5,506	\$4,893,312

**Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly
at Internal Revenue Service Volunteer Income Tax Assistance Sites**

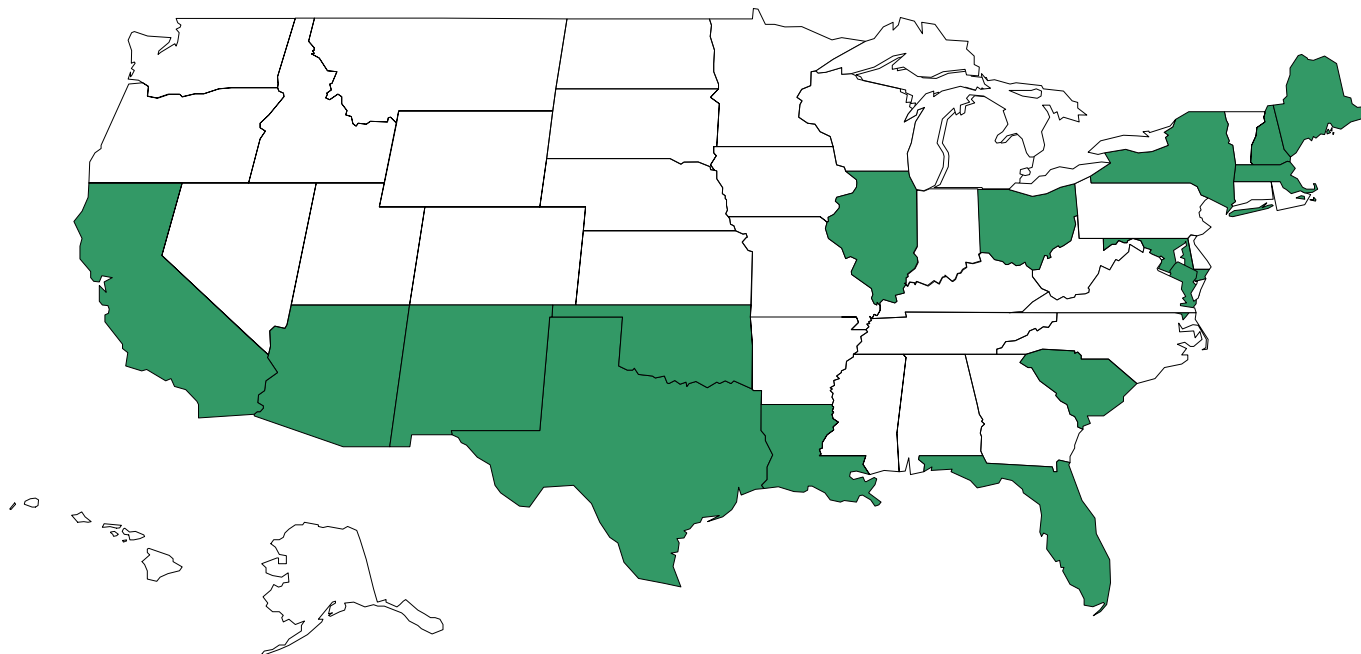
State	Paper Tax Returns	Electronic Tax Returns	Paper and Electronic Tax Returns	Refund Amount	Earned Income Tax Credit Tax Returns	Earned Income Tax Credit Amount	Child Tax Credit Returns	Child Tax Credit Amount
Washington	3,449	13,646	17,095	\$26,820,173	2,919	\$4,138,472	5,300	\$4,611,459
West Virginia	2,243	2,963	5,206	\$4,763,750	1,196	\$1,263,033	521	\$387,403
Wisconsin	3,500	12,452	15,952	\$15,015,842	4,451	\$4,983,730	2,456	\$1,861,407
Wyoming	260	2,752	3,012	\$3,592,863	575	\$737,706	687	\$582,263
International/ Military	4,838	86,096	90,934	\$137,630,917	11,546	\$17,218,282	21,718	\$17,413,475
Totals:	254,365	589,438	843,803	\$995,736,279	179,544	\$236,468,096	161,618	\$127,542,596

Source: Internal Revenue Service management information system containing all tax returns prepared at Volunteer Income Tax Assistance sites.

**Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly
at Internal Revenue Service Volunteer Income Tax Assistance Sites**

Appendix V

**States Visited for Volunteer Tax Preparation Assistance
February Through April 2004**



The 15 states visited in which auditors had tax returns prepared included Arizona, California, Florida, Illinois, Louisiana, Maine, Maryland, Massachusetts, New Hampshire, New Mexico, New York, Ohio, Oklahoma, South Carolina, and Texas. We also visited the District of Columbia.

**Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly
at Internal Revenue Service Volunteer Income Tax Assistance Sites**

Appendix VI

**Results of Tax Returns Incorrectly Prepared at Community-Based
Volunteer Income Tax Assistance Sites**

Taxpayer Assistance Centers Visited	Volunteer Income Tax Assistance Refund	Correct Refund	Refund Understated	Refund Overstated
Phoenix, AZ	\$1,716	\$1,310		\$406
National City, CA	\$2,203	\$1,310		\$893
Oakland, CA	\$1,797	\$258		\$1,539
Oceanside, CA	\$1,797	\$1,310		\$487
Sacramento, CA	\$707	\$72		\$635
San Diego, CA	\$2,200	\$1,310		\$890
San Francisco, CA	\$797	\$258		\$539
Washington, D.C.	\$1,797	\$1,310		\$487
Washington, D.C.	\$2,203	\$258		\$1,945
Plantation, FL	\$2,017	\$1,220		\$797
Dekalb, IL	\$1,258	\$1,310	\$52	
Melrose Park, IL	\$1,340	\$258		\$1,082
Normal, IL	\$2,203	\$258		\$1,945
Baton Rouge, LA	(\$148)	\$258	\$406	
New Orleans, LA	(\$148)	\$1,310	\$1,458	
New Orleans, LA	\$2,203	\$1,310		\$893
Boston, MA	\$1,707	\$1,220		\$487
Rockville, MD	\$2,203	\$1,310		\$893
Portland, ME	\$1,797	\$1,310		\$487
Nashua, NH	\$2,203	\$258		\$1,945
Albuquerque, NM	\$2,203	\$1,310		\$893
Gallup, NM	\$2,203	\$1,310		\$893
Las Cruces, NM	\$1,797	\$1,310		\$487
Brooklyn, NY	\$2,203	\$1,310		\$893
New York, NY	\$2,203	\$1,310		\$893

**Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly
at Internal Revenue Service Volunteer Income Tax Assistance Sites**

Taxpayer Assistance Centers Visited	Volunteer Income Tax Assistance Refund	Correct Refund	Refund Understated	Refund Overstated
Columbus, OH	\$0	\$1,310	\$1,310	
Hobart, OK	\$2,203	\$1,310		\$893
Oklahoma City, OK	\$2,203	\$1,310		\$893
Tulsa, OK	\$2,203	\$1,310		\$893
Anderson, SC	\$2,203	\$1,310		\$893
Columbia, SC	\$1,797	\$258		\$1,539
West Columbia, SC	\$1,803	\$2,203	\$400	
Austin, TX	\$1,797	\$1,310		\$487
Houston, TX	\$797	\$1,310	\$513	
Round Rock, TX	(\$148)	\$258	\$406	
Totals:			\$4,546	\$26,007

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

Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly
at Internal Revenue Service Volunteer Income Tax Assistance Sites

Appendix VII

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
AUG 19 2004

August 19, 2004

MEMORANDUM FOR ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Henry O. Lamar, Jr. *Henry O. Lamar, Jr.*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Improvements Are Needed to Ensure
Tax Returns Are Prepared Correctly at Internal Revenue
Service Volunteer Income Tax Assistance Sites
(Audit # 200440039)

I reviewed your draft report and agree with your findings and recommendations. I am pleased that the report properly acknowledges the critical role the Volunteer Income Tax Assistance (VITA) program plays in serving taxpayers disadvantaged by income, language, age or disability. Through the dedicated efforts of approximately 70,000 volunteers combined with many prominent national and thousands of local organizations, more than 1.9 million underserved taxpayers received volunteer tax return filing assistance in 2004. Notwithstanding the findings in your report, it is important to acknowledge that VITA volunteers are critical in providing quality tax preparation services for low-income taxpayers, for which they should be commended.

Your report correctly emphasizes that the complex lives of low-income families and individuals, coupled with complex tax law, create a significant challenge for volunteers in preparing accurate returns. We agree, however, with the importance of effectively integrating volunteer training, return preparation information gathering, tax law support resources, and rigorous quality assurance to obtain an accurate and quality result. The effort and resources required to achieve and sustain quality return preparation on the scale of the VITA program are significant. The IRS Stakeholder Partnerships, Education and Communication (SPEC) organization and its community-based partners recognize that preparing and filing accurate returns is a cornerstone of the United States income tax system.

Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites

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The return errors identified by Treasury Inspector General for Tax Administration (TIGTA) auditors are unacceptable to a program committed to quality.¹ Errors of omission, when identified, can and will be rectified. Ethical misconduct, however limited, will not be condoned. Individuals found willfully changing taxpayer information will be immediately removed from the program.

TIGTA auditors identified several areas for operational improvement in 35 of the 44 VITA sites visited. While we agree with these observations, it should be clearly emphasized that the two scenarios used by TIGTA auditors do not represent the taxpayer filing situation nor the characteristics of the vast majority of volunteer-prepared returns. For example, TIGTA auditors requested Head of Household filing status, a designation that involves only 13.5 percent of all tax returns prepared at volunteer sites.² Similarly, the familial relationship, grandnephew or grandniece, used in 10 of the 35 visits is so unusual that it is not included in the IRS specifications to software developers.

Since the establishment of the SPEC organization in 2000, SPEC senior management and its community-based partners have been committed to delivering VITA quality service and accuracy. I appreciate your recognition of several areas of existing positive operational support for quality outcomes including annual refinements to volunteer training and knowledge management tools. The SPEC-led Volunteer Tax Preparation Quality Improvement Team (Quality Team), cited in your report, has developed a multi-year business plan to address quality issues. The team is comprised of IRS and major partner representatives and during 2005, particular emphasis will be placed on institutionalizing improved operational practices. These will encompass improved return preparation intake procedures, the return preparation interview process, standards of conduct, use of reference materials, and quality review and quality assurance practices. SPEC is also reviewing its internal management controls to improve the clarity of guidance and consistency of application in our field offices.

In further recognition of the importance of effective information gathering in the accurate completion of tax returns, requirements for interview software will be included in the FY 2006 Full and Open Competition bid for the e-file software used by volunteers (tentative award January 2005). Requirements will include a series of probing

¹ Filing status and EITC were the items that were most frequently in error, while dependency exemptions were accurate 77% of the time. This highlights the complexity of the definition of a child for purposes of determining filing status, EITC, and dependency exemptions. We note that legislation currently pending in the Congress, the Tax Administration Good Government Act, would provide a uniform definition of child for these and other deductions and credits.

² Figure based on electronic filing report from IRS volunteer software dated June 28, 2004.

Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites

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questions designed to prompt the volunteer-preparer to ask the right questions necessary to the preparation of an accurate return.

Finally, on behalf of the Service, I would like to express my sincere appreciation and deep gratitude to those volunteers who selflessly and without compensation make a significant contribution to the tax system on an annual basis. They deserve recognition for their service in fulfilling the needs of those who might not otherwise be able to access quality return preparation. We look forward to continuing our fruitful relationship with volunteer tax preparers and our partners in the VITA program.

We are confident that the findings and underlying causes identified in your report will be mitigated through the timely collaborative efforts of SPEC and its partners. Our corrective actions are detailed in the attachment. If you need additional information, please let me know or contact Mark Pursley, Director, SPEC, Wage and Investment, Customer Assistance, Relationships and Education, at (404) 338-7104.

Attachment

Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites

Attachment

RECOMMENDATION 1

Review the existing process for ensuring volunteers are qualified to prepare tax returns to make certain that volunteers are trained and certified.

ASSESSMENT OF CAUSE

We agree with your finding that certain internal controls were inconsistently followed even though the 2003 Internal Revenue Manual (IRM) and other SPEC publications contain guidelines regarding volunteer training, testing, and certification. The current process of gathering volunteer names, test scores, and certifications can be both labor and paper intensive for SPEC and its partners and this has contributed to the lack of uniformity in local documentation.

SPEC's partners are expected to submit by mail all individual volunteer certifications to their respective SPEC Territory Offices. Certifications are generally completed and gathered from volunteers in the classroom after training and testing are completed. SPEC Territory Offices maintain the paper certifications and use the SPEC Taxpayer Assistance Reporting System (STARS) to record whether volunteer certifications for a specific site have been received. The STARS application, however, does not currently provide the capability to input individual names into the database.

SPEC's volunteer tax preparation programs involve approximately 70,000 volunteers. SPEC and its partners agree that effective volunteer training plays a paramount role in return preparation accuracy. Our approach to this recommendation is to increase volunteer and partner access to training and improve volunteer testing documentation through web-based applications.

CORRECTIVE ACTION

The volunteer certification documentation process currently in place will continue until the automated process described below is tested and implemented. SPEC will emphasize to its partners, prior to the 2005 filing season, the requirement to provide volunteer certifications to the SPEC territory offices. SPEC's site visitation checklist will include verification that all certifications for volunteers preparing returns have been received.

SPEC will implement a new automated certification system that will improve the testing and certification process. An automated volunteer certification tracking function will be evaluated and tested with an anticipated release date of October 2004. This function will be part of SPEC's Link and Learn Taxes, a web-based training program accessible through the IRS.gov. This web-based application will provide the volunteer tax

Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites

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preparation training curriculum and certification test. The test will be completed by the volunteer and scored automatically by the system. With the automated certification tracking feature, the system will deliver on-demand the volunteers' test scores to a central database by electronic mail and will result in a registry of certified volunteers.

As an added benefit, the automated certification function will facilitate electronic communications with volunteers. Volunteer electronic mail accounts will provide the nucleus for on-demand quality updates, dissemination of tax law compliance trends, and other opportunities to support our volunteer efforts. Partners and volunteers that are not web-enabled will continue to use the current paper-based process.

IMPLEMENTATION DATE

December 15, 2004

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor corrective action through the Annual Review of Volunteer Certification Registry.

RECOMMENDATION 2

Develop a quality review program that ensures volunteers are correctly applying the law.

ASSESSMENT OF CAUSE

Prior to the TIGTA audit, the primary performance measure for VITA accuracy was return math error rates. Math error notice codes include returns with computational errors, missing information, and misinterpretation of the tax law. During processing, tax returns are evaluated against approximately 700 such codes. Over 70 percent of all volunteer-prepared returns are electronically filed,³ and the use of commercial tax preparation software resulted in 97.2 percent of volunteer-prepared returns being free of math errors.⁴

³ Figure based on ETA ELF 1541 Report dated July 27, 2004.

⁴ Based on July 17, 2004 Volunteer Tax Preparation Report (Source: IMF cycle 30).

Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites

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However, as the TIGTA audit demonstrated, there are limitations to using return math errors as the primary measure of accuracy. Inputting information into the tax preparation software that is technically correct, but inaccurate given the facts provided by the taxpayer, results in a return being processed free of math errors. TIGTA auditors identified that the quality of the return preparation information gathering process, whether as part of a pre-preparation intake process or as part of the preparation interview, was critical to correctly applying relevant tax law and preparing and filing an accurate tax return.

CORRECTIVE ACTION

The Volunteer Tax Preparation Quality Improvement Team (Quality Team) developed a multi-year business plan that addresses the issues of quality review and quality assurance. In accordance with this plan, SPEC will conduct quality reviews to determine whether required and recommended operational steps are being followed to ensure an accurate return. SPEC will also monitor quality assurance efforts to assess whether these practices are producing the desired outcomes.

After mapping and analyzing the entire volunteer tax preparation process, the Quality Team identified several operational processes that would have the most immediate and positive impact on return accuracy. These operational steps will encompass all of the TIGTA findings, will be incorporated into SPEC and partner training and will form the basis of refined volunteer site monitoring criteria. SPEC will develop and communicate to its partners guidance clarifying required and recommended actions in the fall, 2004.

SPEC will develop a tiered quality assurance monitoring process for the 2005 filing season. Working with the Office of Statistics of Income, SPEC will create a statistically valid sample of direct observation reviews. The plan will include random selection of volunteer sites and returns to be reviewed through observation. During site monitoring visits, SPEC employees will observe volunteers preparing actual returns to determine if the return was prepared accurately.

To supplement the observation reviews, SPEC Area Offices will conduct a limited number of anonymous shopping visits using taxpayer scenarios indicative of volunteer return filing characteristics. The purpose of these visits will be to provide data that is independent of the influence of the observation process. SPEC's partners expressed a strong desire to participate in the quality review and assurance process. SPEC is currently evaluating opportunities to test partner peer-to-peer quality reviews in 2005.

Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites

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SPEC and the Quality Team will evaluate performance measures that address volunteer site adherence to quality review requirements and accurate application of tax law. The result will be metrics that are similar to the IRS' Customer Accounts Services and Field Assistance functions, measuring the percentage of accurate returns identified through sampling. The 2005 filing season will represent a baseline year to test the sampling plan and evaluate data and results.

IMPLEMENTATION DATE

February 15, 2005

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

SPEC will conduct annual quality review and assurance reviews to monitor adherence to established guidelines.

RECOMMENDATION 3

Ensure VITA site information, including the address, hours of service, type(s) of language service offered, and whether an appointment is necessary, is current and accurate.

ASSESSMENT OF CAUSE

Guidance regarding the inclusion and maintenance of volunteer site information is included in the IRM and verifying volunteer site information is a formal part of filing season readiness certification. SPEC field offices are required to enter information into the Public Information Directory as soon as a site is established. Field offices are also required to update the directory whenever site locations, hours or dates of services, or services offered change. With the development of STARS, volunteer site information was contained in a SPEC database that linked with the system used by IRS Customer Service Representatives and Field Assistance personnel. However, the information is provided to SPEC staff by site sponsors and keeping it up to date for almost 14,000 volunteer sites creates a significant operational challenge.

Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites

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Your report notes the SPEC decision not to include volunteer site information on the IRS website. In addition to the challenge of keeping site information up to date, the 2003 SPEC customer satisfaction survey reflects that only 7 percent of taxpayers use IRS to locate a volunteer site while 59 percent use word of mouth and local media. Your report accurately notes the significant success SPEC and its partners have had in marketing the volunteer services locally.

CORRECTIVE ACTION

We will build an indicator in the STARS site module that will require field offices to verify that all site information is correct and up-to-date. Regarding your recommendation that SPEC amend STARS to accommodate more than one language so that sites offering assistance in languages other than English could be identified, STARS has already been changed to allow input of multiple languages. This change will take effect for the 2005 filing season. SPEC will continue to emphasize in its field guidance, partner training materials, and partner communication vehicles the importance of timely and accurate site information. Verifying individual site information will remain a formal requirement in SPEC filing season readiness certification and site monitoring processes. Finally, SPEC and its partners will continue the successful strategy of marketing and publicizing the availability of volunteer services locally.

IMPLEMENTATION DATE

February 15, 2005

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor corrective action completion through Filing Season Certification and Volunteer Site Monitoring Plans.