

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **The IRS Lacks Authority to Independently Verify That Low Income Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements**

January 15, 2025

Report Number: 2025-100-005

# HIGHLIGHTS: The IRS Lacks Authority to Independently Verify That Low Income Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements

Final Audit Report issued on January 15, 2025

Report Number 2025-100-005

## Why TIGTA Did This Audit

In prior audits, we identified problems with the administration of the Low Income Taxpayer Clinic (LITC) grant program and emphasized the need for the IRS to make improvements.

This audit was initiated to assess the effectiveness of the National Taxpayer Advocate's oversight of the LITC grant program.

## Impact on Tax Administration

Financial grants to the LITCs were first provided under a provision of the IRS Restructuring and Reform Act of 1998. The LITC Program is a federal grant program administered through the Taxpayer Advocate Service that provides matching grants up to \$100,000 per year to qualifying organizations.

The goal of the LITC Program is to provide low-income taxpayers who are involved in tax controversies with the IRS with free or nominal cost legal assistance to ensure that they have access to representation and to provide Limited English Proficiency taxpayers with education on their taxpayer rights and responsibilities.

For an organization to qualify for an LITC grant, it must meet the requirements specified in Internal Revenue Code § 7526. The LITC Program had the authority to grant up to \$26 million and \$28 million to qualified LITCs in Calendar Years 2023 and 2024, respectively.

## What TIGTA Found

The LITC Program Office must ensure that LITC grant recipients meet the following grant requirements: provide matching funds dollar for dollar, provide services for free or a nominal fee, 90 percent of taxpayers served by the LITC have incomes that do not exceed 250 percent of the poverty level, and represent taxpayers who are involved in tax controversies with the IRS that generally do not exceed \$50,000. However, the Program Office is restricted by Department of the Treasury (Treasury Department) regulations from viewing LITC client information.



We reviewed a judgmental sample of grant applications as well as interim and year-end review summary reports for 15 out of 130 LITCs from the 2022 grant year and found that the Program Office primarily relied on self-certified information from the LITCs. While the Program Office can administer and monitor the LITC Program, it lacks the ability to independently validate client information to ensure that the terms of the grants are being followed.

However, for the 2023 grant year, more than 75 percent of the LITCs were subject to an independent audit. The auditor must determine whether the entity has complied with federal statutes, regulations, and the terms and conditions of federal awards, which includes grants. The Treasury Department could subject the LITC Program to more focused oversight by including it in a supplementary audit guide prepared annually. This guide directs the external auditor's testing to the compliance requirements most likely to cause improper payments, fraud, waste, or abuse, or generate audit findings for which the IRS would impose sanctions.

Lastly, we determined that the Program Office's workflow lacks a consolidated centralized system; therefore, reviews of LITC data are a manual and labor-intensive process, making the process vulnerable to human error.

## What TIGTA Recommended

We recommended that the National Taxpayer Advocate should:

- 1) add an attestation on forms where data about taxpayers whose income exceeds the 250 percent of the poverty level limitation is reported, affirming accuracy, and acknowledging the penalty for making a false statement;
- 2) work with the Treasury Department to request that LITC grant requirements be included within the Treasury Department's Compliance Supplement to ensure that grant recipients are abiding by the rules; and
- 3) develop a centralized system to administer the LITC grant program.

Taxpayer Advocate Service management agreed with all of our recommendations and stated that they have started to take or plan to take corrective actions.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**  
**WASHINGTON, D.C. 20024**

January 15, 2025

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in cursive script, appearing to read "Danny Verneuille".

**FROM:** Danny Verneuille  
Acting Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – The IRS Lacks Authority to Independently Verify That Low Income Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements (Audit No.: 202310015)

This report presents the results of our review to assess the effectiveness of the National Taxpayer Advocate's oversight of the Low Income Taxpayer Clinic grant program. This review is part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenge of *Taxpayer Service*.

Management's complete response to the draft report is included as Appendix II. If you have any questions, please contact me or Bryce Kisler, Assistant Inspector General for Audit (Taxpayer Services and Operational Support).

# Table of Contents

<b><u>Background</u></b> .....	Page 1
<b><u>Results of Review</u></b> .....	Page 5
<u>Department of the Treasury Regulations Limit     IRS Oversight Provided to Low Income Taxpayer Clinic     Grant Recipients</u> .....	Page 5
<u>Recommendations 1 and 2:</u> .....	Page 12
<u>Oversight of the Low Income Taxpayer Clinic Grant     Process Is Labor Intensive</u> .....	Page 12
<u>Recommendation 3:</u> .....	Page 14
<b><u>Appendices</u></b>	
<u>Appendix I – Detailed Objective, Scope, and Methodology</u> .....	Page 15
<u>Appendix II – Management’s Response to the Draft Report</u> .....	Page 17
<u>Appendix III – Abbreviations</u> .....	Page 21

## Background

Financial grants to Low Income Taxpayer Clinics (LITC) were first provided under a provision of the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998.<sup>1</sup> In prior audits, the Treasury Inspector General for Tax Administration identified problems with the administration of the LITC grant program and emphasized the need for the IRS to make improvements.<sup>2</sup>

The LITC Program is a federal grant program administered through the Taxpayer Advocate Service (TAS) that provides matching grants up to \$100,000 per year to qualifying organizations.<sup>3</sup> The goal of the LITC Program is to provide low-income taxpayers who are involved in tax controversies with the IRS with free or nominal cost legal assistance to ensure that they have access to representation (by providing the representation either directly or indirectly through referral to a qualified representative) and to provide limited English proficiency taxpayers with education on their taxpayer rights and responsibilities. For an organization to qualify for an LITC grant, it must meet the requirements specified in Internal Revenue Code (I.R.C.) § 7526 by:<sup>4</sup>



Providing matching funds on a dollar-for-dollar basis for all federal funds awarded by the LITC Program. Matching funds can be in the form of cash or third-party, in-kind contributions (*e.g.*, time worked by volunteers, donated software, or office space).



Providing services for free or for no more than a nominal fee. The fee must be a flat fee and cannot fluctuate based on an hourly rate or the type of service provided by the LITC.



Ensuring that 90 percent of the taxpayers represented by the LITCs have incomes that do not exceed 250 percent of the poverty level (*i.e.*, low income). Income requirements are based on poverty guidelines published annually by the Department of Health and Human Services.



Representing taxpayers with IRS controversies that generally do not exceed \$50,000 per tax year.<sup>5</sup> The amount in controversy includes the tax liability in dispute for a tax year, plus any related penalties imposed.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2, 5, 16, 19, 22, 23, 26, 31, 38, and 49 U.S.C.).

<sup>2</sup> TIGTA, Report No. 2017-10-005, [Improvements Are Needed in the Taxpayer Advocate Service Process to Implement Recommended Corrective Actions](#) (November 2016), and TIGTA, Report No. 2011-10-067, [The Taxpayer Advocate Service Can More Effectively Ensure Low Income Taxpayer Clinics Are Appropriately Using Grant Funds](#) (July 2011).

<sup>3</sup> An independent organization within the IRS that helps taxpayers resolve problems with the IRS and recommends changes to prevent systemic tax issues.

<sup>4</sup> I.R.C § 7526(b)(1)(A) authorizes the IRS to award grants to organizations that represent low-income taxpayers in controversies before the IRS or provide information to limited English proficiency taxpayers regarding their taxpayer rights and responsibilities.

<sup>5</sup> A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

## **The IRS Lacks Authority to Independently Verify That Low Income Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements**

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In Calendar Year (CY) 2022, the National Taxpayer Advocate recommended that Congress remove the cap on LITC grant awards, which has been \$100,000 since the enactment of the IRS Restructuring and Reform Act of 1998. Specific recommendations were to:

- Eliminate the \$100,000 per LITC funding cap.
- Amend the 100 percent “matching funds” requirement.
- Raise the overall authorized LITC Program funding limitation from \$6 million to \$25 million.

### **LITC Program Office requirements**

TAS’s LITC Program Office (hereafter referred to as the Program Office) is responsible for administering LITC grants and providing guidance, assistance, oversight, and monitoring to the qualifying LITCs. For Fiscal Year 2024, the Program Office consisted of 24 employees and had an operating budget of \$4.8 million. The Program Office’s budget includes key personnel salaries, service and supplies, training, and travel.

The Program Office initiates the yearly LITC grant program by posting the Notice of Funding Opportunity on Grants.gov. The grant application period generally begins in April and ends in June each year. Interested and qualified organizations that are new to the program submit a full grant application package to receive a single year grant. Organizations that successfully completed their single year or multiyear grant period, would submit a new, full grant application package to continue in the program. However, organizations with ongoing multiyear grants would request subsequent year funding by submitting a Non-Competing Continuation Request Form, in lieu of a full grant application.

The grant application package and the Non-Competing Continuation Request Form require the applicants to provide detailed information about their organization. This information includes their mission, goals, and activities along with financial information, such as budgets and sources of funds. This information will also detail the communities they plan to serve and the services they plan to offer. The information provided by the applicants is reviewed, analyzed, ranked, and evaluated by the Program Office and other TAS employees based on the organization’s experience, financial responsibilities, program plan, and program coverage. The final decision for funding is made by the National Taxpayer Advocate.

Each year, LITC grant recipients are required to submit an interim report due on July 30<sup>th</sup> and a year-end report due on March 30<sup>th</sup> following the end of the yearly grant period.<sup>6</sup> The Program Office reviews the interim and year-end reports to assess the LITC’s progress in meeting its program goals, identify issues, and measure performance. The Program Office also reviews the LITC’s budget and financial report information to ensure that grant funds are properly expended, and matching funds are sourced, spent, and valued correctly. Figure 1 shows the order the Program Office reviews the primary LITC documents.

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<sup>6</sup> The due date is adjusted if the due date falls on a weekend or a federal holiday.

Figure 1: Program Office Review of LITC Documents



Source: Internal Revenue Manual 13.8.1.1.2(7)(c), Roles and Responsibilities (Oct. 1, 2021).

### Site assistance visits

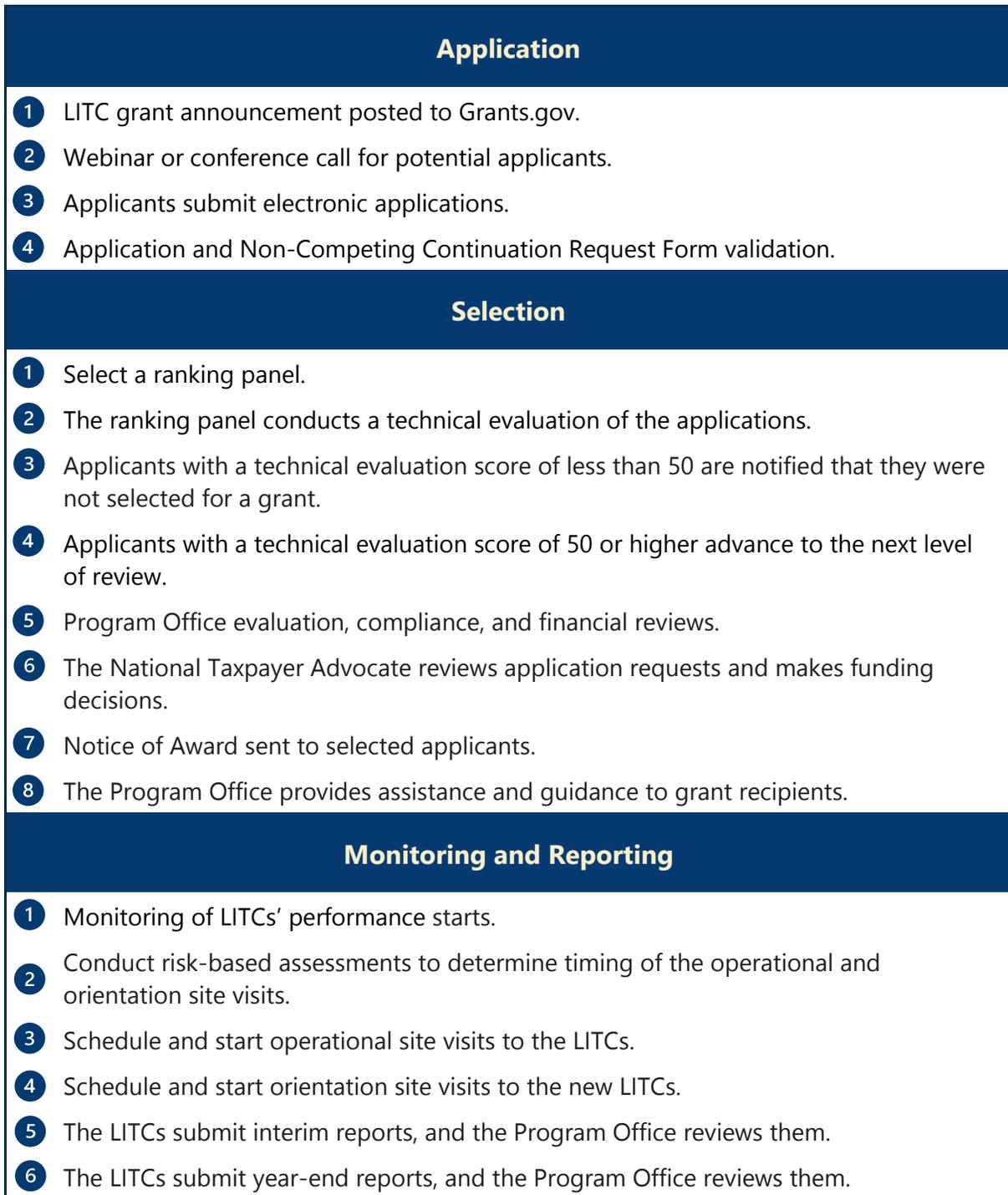
Program Office staff also conduct orientation and operational site visits to the LITCs during the grant year. Orientation site visits are conducted during the first year an LITC receives a grant.<sup>7</sup> The orientation site visit is to familiarize a new grant recipient with LITC Program requirements and to measure the progress of the LITC's startup activities. During an orientation site visit, Program Office staff will discuss accounting procedures and internal controls with the new grant recipient. Additionally, Program Office staff will perform a limited sampling of records and expense documentation to ensure that controls are in place and being used appropriately.

Program Office staff also conduct operational site visits to the LITCs to oversee and monitor their progress.<sup>8</sup> Operational site visits are conducted to evaluate the LITC's overall operations and to provide technical assistance to help the grant recipient maintain compliance with the terms and conditions of the LITC grant. An operational site visit may include a review of documents, papers, or other records of the grant recipient. During the operational site visits, Program Office staff interview LITC personnel, observe the facilities, review procedures and internal controls, corroborate reported information, and evaluate operations. Figure 2 outlines the steps in the Program Office's LITC grant process.

<sup>7</sup> Orientation site visits generally occur during the first 120 calendar days of the grant year (usually between the months of February and April).

<sup>8</sup> Operational site visits are generally conducted at least once every three years.

Figure 2: LITC Grant Process



Source: LITC Grant Application Package and Guidelines (May 2024).

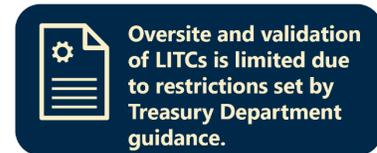
The Program Office collaborates with the LITCs to assist in the administration of the grants. The Program Office delivers assistance and guidance through several channels, including an LITC Toolkit, an Annual LITC Grantee Conference, webinars, conference calls, emails, and

one-on-one telephone calls with the LITCs.<sup>9</sup> The Program Office also encourages LITC staff to attend continuing professional education programs sponsored by the IRS and other professional organizations with expertise in tax controversy resolution.

## **Results of Review**

### **Department of the Treasury Regulations Limit IRS Oversight Provided to Low Income Taxpayer Clinic Grant Recipients**

The Program Office is limited in its oversight and validation of LITC-provided information due to restrictions set by the Department of the Treasury (Treasury Department) regulations.<sup>10</sup> The Program Office is tasked with ensuring that grant recipients meet minimal requirements to fund the development, expansion, or continuation of their LITCs.<sup>11</sup> However, due to attorney-client privilege prohibitions, the Program Office cannot review any client information held by attorneys or tax practitioners under the LITC program. As a result, the Program Office cannot independently verify that at least 90 percent of the taxpayers represented by the LITCs meet the poverty level restrictions or that the LITC represented taxpayers' tax controversies with the IRS generally do not exceed \$50,000.



Prior to the start of each grant year, the Program Office approves funding for LITC grant recipients based on the information provided in their grant applications. The Program Office ensures that the grant application packages are complete and include narratives that reconcile across all the forms in the application package. If the information in the application package appears to address all the necessary grant requirements, the Program Office will approve funding without further validation of the information for accuracy and credibility. Likewise, if the grant application does not have the necessary information, the Program Office will contact the LITC and provide guidance to ensure that the necessary information is provided. While the LITCs provide details in their applications and reports, the Program Office is restricted by Treasury Department regulations from validating this information and must rely on the LITC's annual independent audit report (if available) and self-attestations.

The Program Office also conducts and coordinates webinars to provide the LITCs with information on the requirements for completing the grant application and reports, legal issues, and other topics to assist the LITCs in advocating for low-income taxpayers. According to the IRS, the Program Office's intent is to build relationships with the LITCs to create trust and encourage them to seek its guidance and assistance.

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<sup>9</sup> The LITC Toolkit is a website used to disseminate program information and guidance to grant recipients and provide resources to assist the LITCs in implementing their program plans in support of their mission. The Annual LITC Grantee Conference is held each year by the Program Office and provides an opportunity for grant recipients to meet, network, share best practices, and obtain substantive training on tax law topics relevant to low-income and limited English proficiency taxpayers.

<sup>10</sup> 2 C.F.R. § 1000.337.

<sup>11</sup> I.R.C. § 7526.

## **LITC matching funds are reviewed by budget analysts**

One of the federal grant requirements for the LITCs is to match grant funding, dollar for dollar. LITC grant application packages will provide details on the matching funds, including cash donations or like-kind exchanges, such as volunteer or *pro bono* work. The Program Office reviews the matching funds listed in the budget worksheets that are included in the LITCs' grant application packages.<sup>12</sup>

Budget analysts within the Program Office review the LITCs' budget worksheets by comparing the matching funds to the requested grant dollar amounts. The budget analysts review the narratives explaining how the matching funds were calculated to determine how the LITCs plan to spend the grant funds throughout the fiscal year. All budgeted amounts indicated by the LITCs in their budget worksheets must be reasonable, necessary, and allocable to the grant. The LITCs must explicitly state in their budget worksheets that the matching funds will not be used for any other federal program or received from any other federal grant unless authorized by statute. The Program Office summarizes its review of the budget worksheets in the application review reports. However, policies and procedures do not require authenticating the source of these matching funds at the time of receipt of the report; therefore, these reviews are not a true validation. If the information provided raises questions, documentation may be requested.

We reviewed the budget worksheets included in the grant applications for a judgmental sample of 15 out of 130 LITCs awarded grants during the 2022 grant year.<sup>13</sup> While we found that the Program Office reviewed all 15 LITC budget worksheets in our sample to ensure that the applicants listed their matching fund sources in detail and provided narratives to detail their calculations, it did not require the LITCs to provide supporting documentation to validate the existence or value of the matching contributions. Therefore, we were unable to determine if the reviews were effective.

In addition, all 15 LITC budget worksheets that we reviewed listed matching fund sources derived from cash and third-party, like-kind contributions such as volunteer or *pro bono* work. Furthermore, 3 of the 15 LITCs also listed donated tax help software or a tax news magazine subscription. Although the LITCs listed their matching fund sources and a detailed explanation for each spending category, they did not provide any other supporting documents.

According to the Program Office job aid, the budget analysts analyze the LITCs' budget worksheets and supporting documentation to ensure that they match, and that the budget fulfills the matching fund requirement. However, aside from the LITC created budget worksheets, there were no supporting source documents required to be provided in the grant applications for the 15 LITCs we reviewed. The budget analysts review the budget worksheets to ensure that the matching funds were allocated for expenses in accordance with the cost principal guidance.<sup>14</sup> Once an LITC is approved for a grant, it is required to submit a grant expense form in its interim and year-end reports. The Program Office reviews and compares the

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<sup>12</sup> Form 13424-J, *Detailed Budget Worksheet*, is used to provide a detailed explanation for each spending category in the proposed budget for the LITC grant, including how federal grant funds and matching funds will be spent during the grant period.

<sup>13</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

<sup>14</sup> 2 C.F.R. §§ 200 and 1000.

LITC budget worksheets to the grant expense forms to monitor how the grant and matching funds are spent throughout the grant year.

### **The LITCs self-certify their clients' income, controversy levels, and fees charged for services**

Other grant requirements are that at least 90 percent of taxpayers represented by an LITC have incomes which do not exceed 250 percent of the poverty level and that the taxpayers' controversies with the IRS generally do not exceed \$50,000. The Program Office uses the information in the LITCs' interim and year-end reports to manage and evaluate their progress. These reports summarize the number of clients the LITCs serve but do not provide details, such as income level or controversy amounts, about their clients as Treasury Department regulations restrict providing client information to the IRS. Therefore, without knowing the clients served by the LITCs, the IRS is unable to independently verify that the clients are indeed low-income or that their controversies meet the grant requirements.

We reviewed the interim and year-end review summary reports for our judgmental sample of 15 out of 130 LITCs for the 2022 grant year and found that the Program Office relied primarily on the self-certified information from the LITCs to determine if they represented clients that exceeded the income limitation or the tax amounts in controversy requirements. Of the LITCs we reviewed, 2 of the 15 reported that they represented clients that exceeded the 250 percent of the poverty level limitation in their year-end reports for the 2022 grant year. Although the Program Office indicated having a discussion with the LITCs based on what they reported, the Program Office did not require them to provide any justification in their reports for representing those clients. However, the Program Office notated in its interim and year-end review summary reports that the 90 percent rule was discussed with the LITCs.

We also found that 4 of the 15 LITCs reported that they assisted clients who had controversies that exceeded the \$50,000 requirement in their 2022 year-end reports. The Program Office discussed the client controversies that exceeded \$50,000 with the LITCs. However, the LITCs justified representing these clients because:

- The client was considered low income.
- The client could not afford representation.
- The tax case provided an educational opportunity for the LITC to gain experience.
- The client was disabled or has limited English proficiency who presented compelling needs for *pro bono* assistance.

Additionally, when reviewing the interim and year-end review summary reports, the Program Office compares the information reported by the LITCs to their application and prior year reports, documents any errors, and follows up with them to make corrections. The LITC's interim report is required to discuss its activities conducted during the first six months of the grant year, while the year-end reports cover the LITC's activities for the entire year. As noted in Figure 3, the Program Office reviews LITC information to monitor grant requirements, case mix, emerging issues, success stories, goals, and other items during its assessment of an LITC's interim and year-end review summary report.

**The IRS Lacks Authority to Independently Verify That Low Income  
Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements**

**Figure 3: Program Office Review of Interim and Year-End Review Summary Reports**

Assessment	Analysis	Information Program Office Reviews
<b>LITC Case Mix Percentages</b>	LITC cases compared with peers.	<ul style="list-style-type: none"> <li>• Case complexity below peers.</li> <li>• Percentage of Collection cases.</li> <li>• Percentage of Appeals cases.</li> <li>• Percentage of Litigation cases.</li> </ul>
<b>Statutory Requirements</b>	Did the LITC comply with the income limitations and \$50,000 controversy requirements.	<ul style="list-style-type: none"> <li>• Yes/No (If no, the number of clients that exceed the requirements).</li> </ul>
<b>Emerging Issues</b>	Issues experienced by the LITCs when assisting clients.	<ul style="list-style-type: none"> <li>• Taxpayers did not receive Recovery Rebate Credits denied by the IRS.</li> <li>• Taxpayers unable to reach the IRS via telephone.</li> <li>• Delays with issuance of Social Security Numbers.</li> </ul>
<b>Success Story</b>	Client with challenges achieved success with LITC assistance.	<ul style="list-style-type: none"> <li>• Erroneous income reported by employer resolved, resulting in receiving a tax refund in a short time period.</li> <li>• High tax debt reduced economic hardship.</li> <li>• Unreported income – The IRS allowed amended return and agreed to settle court case.</li> </ul>
<b>Challenges/Impediments</b>	Challenges and hindrances the LITC experienced with the IRS while assisting clients.	<ul style="list-style-type: none"> <li>• Technical difficulties resulting in legal staff adjusting their working hours to reach the IRS during lower calling volume periods.</li> </ul>
<b>Goals</b>	LITC numerical goal percentages.	<ul style="list-style-type: none"> <li>• New representation cases.</li> <li>• Consultations with low-income or limited English proficiency clients.</li> <li>• Educational activities.</li> <li>• Clients to be reached in educational activities.</li> </ul>
<b>Staffing</b>	LITC staff roles and related work experience.	<ul style="list-style-type: none"> <li>• Attorneys.</li> <li>• Volunteers.</li> <li>• Paralegals.</li> </ul>
<b>Representation/Consultation</b>	Services provided to clients.	<ul style="list-style-type: none"> <li>• <i>Pro bono</i>.</li> <li>• Academic clinical training law students.</li> <li>• Informal consultations.</li> </ul>
<b>Education</b>	Available educational programs.	<ul style="list-style-type: none"> <li>• Presentations on referrals to the LITCs by Volunteer Income Tax Assistance programs.</li> <li>• Taxpayers' rights and responsibilities training for taxpayers.</li> </ul>
<b>Outreach/Advocacy</b>	How the LITCs advertise their services.	<ul style="list-style-type: none"> <li>• Website publication.</li> <li>• Social media.</li> <li>• Public events.</li> </ul>

Source: Program Office Interim and Year-End Review Summary Report Template for CY 2022.

## The IRS Lacks Authority to Independently Verify That Low Income Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements

The final term of the grant is that the LITCs provide services for free or for no more than a nominal fee. According to the Program Office, it reviews the grant application and the federal financial report for an indication of fees the LITC received for services. It also reviews the LITC's interim and year-end reports to determine if an LITC indicates charging a nominal fee for service as a form of matching funds. We reviewed grant applications and interim and year-end review summary reports for our judgmental sample of 15 out of 130 LITCs awarded grants in the 2022 grant year and none of them identified any information indicating a fee for services rendered in their reports.

### Site visits are conducted to evaluate and monitor the LITCs

In CY 2023, out of 138 LITCs, the Program Office planned 51 site visits, but only conducted 42 site visits (31 operational site visits to returning LITCs and 11 orientation site visits to the LITCs that were new to the program). Figure 4 summarizes the status of the site visits planned in CY 2023.

**Figure 4: Status of Program Office Site Visits for CY 2023**



*Source: Program Office CY 2023 Site Visit List.*

The Program Office conducts operational site visits to interview LITC personnel, observe facilities, review procedures and internal controls, corroborate report information, and evaluate operations. The purpose is to evaluate an LITC's overall operations and to provide technical assistance to help the grant recipient maintain compliance with the terms and conditions of the LITC grant. Before conducting an operational site visit, the Program Office sends the LITC an LITC Site Assistance Visit Case Eligibility Requirements Tracking Form to collect data on income or controversy eligibility decisions made by the LITC during the grant year. The site visit tracking form asks the LITC to report data for the clients it represents for a specified period. To review the grant requirements, the Program Office uses the site visit tracking form to aid in the discussion with the LITC to determine under what circumstances it accepts clients that exceed the income limitation and tax amounts in controversy requirements.

## The IRS Lacks Authority to Independently Verify That Low Income Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements

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We selected a judgmental sample of site visit tracking forms for 8 out of the 31 operational site visits conducted during the 2023 grant year. We also determined that although the LITCs provided the information in the site visit tracking forms for each of their clients as requested by the Program Office, all the LITCs used masked information to disguise their client's identity to adhere to Treasury Department regulations. The site visit tracking forms also listed the family size, household income, and how the LITCs validated the accuracy of each of their respective client's income. The LITCs notated that they reviewed pay stubs, bank statements, and tax returns to verify their client's income. The LITCs also indicated whether each client met the income limitations and the amount in controversy requirements. While the Program Office monitors LITCs' activities during these site visits, the site visits cannot ensure that the terms of the grant were met based on the information presented by the LITCs on their site visit tracking forms.

In addition, we found that while the Program Office was able to verify that these LITCs existed and had certain procedures in place to operate, it was unable to validate if they met the income limitations and tax amounts in controversy requirements because the LITCs could not disclose the identity of their clients due to Treasury Department regulations. Figure 5 shows the contents of the Program Office's site visit summary reports.

### Figure 5: Contents of the Program Office's Site Visit Summary Reports

-  **Participant List:** The list of the officials who attended the site visit meeting from the Program Office, Local Taxpayer Advocate, and LITC staff.
-  **Summary of Discussion:** A documented summary of the discussions held with the LITCs during the visit regarding changes, concerns, or any planned follow-ups.
-  **The LITC's Intake Process:** The process used by the LITCs to gather information from a taxpayer seeking assistance to determine eligibility for services.
-  **Financial Review:** A review of the LITC's financial controls and payment account policies and procedures. The review also includes the sampling of the LITC's personnel time sheets and expense records.

*Source: Program Office Site Visit Summary Report Template for CY 2022.*

The Program Office also included the findings, recommendations, and action items for the Program Office or the LITC in its site visit summary reports. If corrective actions are identified, the Program Office would be required to follow up to determine if the action was taken. Because each LITC is unique, findings and recommendations may differ. The site visit summary reports noted recommendations such as:

- Increasing the LITC's clientele.
- Marketing events to advertise the LITC's services.
- Improving the LITC's client case monitoring procedures.
- Improving the LITC's operational methods or systems.
- Hiring to fill vacant positions within the LITC.
- Increasing outreach to solicit LITC services to a particular community.

## **The Program Office relies on the integrity of the LITCs through independent audit reports and self-attestations**

Many of these LITCs are generally part of a larger organization, such as a university or a county/city legal aid. TAS management stated that more than 75 percent of the LITCs in the 2023 grant year were affiliated with organizations that expended \$750,000 or more in federal awards and were subject to Office of Management and Budget (OMB)-established additional audit requirements.<sup>15</sup> During these audits, an independent auditor must determine whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards, which includes grants, that may have a direct and material effect on each of its major programs.<sup>16</sup> The auditor must select a proportion of federal grant awards.

Additionally, each year OMB prepares a Compliance Supplement for each agency providing agency-specific guidance for the programs included in the Supplement. The Supplement identifies existing compliance requirements that the federal government expects to be considered as part of an audit. Without the Supplement, auditors would need to research many laws and regulations for each program under audit to determine which compliance requirements are important to the federal government and could have both a direct and material effect on a program. The Supplement focuses the external auditor's testing on the compliance requirements most likely to cause improper payments, fraud, waste, or abuse, or generate audit findings for which the federal awarding agency will impose sanctions.

Currently, the Treasury Department's Compliance Supplement contains audit compliance guidance for 13 different federal programs and funds operated under the Treasury Department. Each program has its own section within the Compliance Supplement that generally breaks down the program's objectives, program overview or procedures, and compliance requirements such as allowable and unallowable activities or cost principles. However, the LITC Program is not 1 of the 13 federal programs in the Treasury Department's supplemental guidance and, therefore, does not have specific requirements to validate LITC grant requirements.<sup>17</sup> If the LITC Program was added to the Treasury Department's Compliance Supplement, a tailored audit could determine if the LITCs are following LITC grant requirements.

All 15 LITCs we reviewed included an independent audit report with their grant application. According to TAS management, reliance is placed on the most recent independent audit report of the organization that is affiliated with the LITC to provide assurance that the information in the grant application is accurate. Additionally, as shown in Figure 6, the applicant signs a penalty clause on the grant application certifying that the statements made in the application and attachments are accurate. TAS management stated that they rely on this attestation. Currently, this attestation is only on the grant application form and year-end report and not emphasized on other required forms submitted by the LITCs.

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<sup>15</sup> 2 C.F.R. § 200.501. In October 2024, the audit requirement threshold increased to \$1,000,000.

<sup>16</sup> 2 C.F.R. § 200.514(d)1 - Compliance is the uniform administrative requirements, cost principles, and audit requirements for federal awards.

<sup>17</sup> 2 C.F.R. § 200, Appendix XI, 21 - Department of the Treasury (May 2024).

### **Figure 6: Excerpt of the Penalty Clause From the Grant Application**

21. \*By signing this application, I certify (1) to the statements contained in the list of certifications\*\* and (2) that the statements herein are true, complete and accurate to the best of my knowledge. I also provide the required assurances\*\* and agree to comply with any resulting terms if I accept an award. I am aware that any false, fictitious, or fraudulent statements or claims may subject me to criminal, civil, or administrative penalties. (U.S. Code, Title 218, Section 1001)

\*\* I AGREE

*Source: Application for Federal Assistance.*

While the Program Office can generally administer and monitor the LITC Program through site visits and reviewing the applications and reports provided by the LITCs, it lacks the ability to independently validate client information to ensure that the terms of the grants are being followed. Congress authorized the IRS to expend up to \$12 million to fund LITCs in CY 2022, which increased to \$26 million in CY 2023 and \$28 million in CY 2024. Without proper oversight, the millions of dollars in awarded LITC grants could potentially be at risk. However, because more than 75 percent of the LITCs are currently subject to an independent audit, if the Treasury Department's Compliance Supplement guidance for these audits is revised to include a review of LITC grant requirements, then the external auditor's testing would be focused on the compliance requirements most likely to reduce the risk of improper payments, fraud, waste, or abuse.

The National Taxpayer Advocate should:

**Recommendation 1:** Add an attestation on forms where data about taxpayers whose income exceeds the 250 percent of the poverty level limitation is reported, affirming accuracy, and acknowledging the penalty for making a false statement.

**Management's Response:** TAS management agreed with this recommendation and will update the LITC grant reporting and application forms to incorporate the language contained in Recommendation 1. The updated forms will be submitted to Forms and Publications for formatting and subsequently forwarded to the OMB for approval.

**Recommendation 2:** Coordinate with the Treasury Department to request that LITC grant requirements be included within the Treasury Department's Compliance Supplement to ensure that grant recipients are abiding by the rules in I.R.C. § 7526.

**Management's Response:** TAS management agreed with this recommendation and has contacted and will coordinate with the Treasury Department to request the inclusion of grant specific information in its Compliance Supplement when the Treasury Department next solicits requests for amendments to the supplement.

### **Oversight of the Low Income Taxpayer Clinic Grant Process Is Labor Intensive**

The process used by the Program Office to manage LITC grants lacks an efficient workflow. After meeting with Program Office staff and analysts to discuss daily operations, we found that the process and procedures used to administer and monitor LITC grants are a manual and labor-intensive process.

## The IRS Lacks Authority to Independently Verify That Low Income Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements

While the Program Office has documented processes and procedures to manage the LITC Program, the workflow lacks a consolidated centralized system. During our review, we found that the Program Office uses a web-based system that does not contain all the necessary functionality and is not compatible with other software used by the Program Office to efficiently execute the LITC grant process. As a result, the Program Office uses various workarounds involving different software programs to perform its work. For example, most of the Program Office's LITC grant process involves using email to send spreadsheets or other documents through the approval process with no systemic controls in place to prevent or detect errors. The spreadsheets and other documents generally contain data about the LITCs and are shared by the Program Office staff making the data vulnerable to human error. Management stated that they are aware of these issues and have inquired about obtaining a more effective system, but they have been unsuccessful due to a lack of resources.

**The process and procedures used to administer and monitor the grant are manual and labor intensive.**



We reviewed a judgmental sample of grant applications as well as interim and year-end review summary reports for 15 out of 130 LITCs that received LITC grants in CY 2022. While we found that the Program Office summarized its assessments of the LITCs' information in its reports, the format or quantity of information provided in each of the reports was inconsistent. The Program Office documented some of its interim and year-end review summary reports using a formatted template while other reports were presented in a different format. While the interim and year-end review summary reports were readable, their presentation and order of the information lacked uniformity across the reports in our sample. According to advocacy analysts, there is no guidance in place on how they should capture the required information. As a result, the process is up to the individual analyst to decide on how they want to document the results of their assessments.

Further, the Program Office provided us with access to its internal website to review documentation. However, the Program Office does not update this site frequently, and the information stored on it was outdated and unorganized. Therefore, we had to rely on the Program Office to provide all the data and documents for the LITCs we requested to conduct our review. We also found that when the Program Office receives data from the LITCs, the information is saved to one of its few local share drives. There is no consistency in where the data are located because the Program Office does not have a centralized database.

While the Program Office is knowledgeable on LITC information, its process is manual and labor-intensive as well as prone to errors. According to the Government Accountability Office's *Standards for Internal Control in the Federal Government*, having a centralized information technology system enables an entity to obtain, store, and process quality information.<sup>18</sup> A centralized database with systemic processes in place would reduce the labor-intensive administration and help maintain consistency, accuracy, and efficiency throughout the organization.

<sup>18</sup> Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government* (September 2014).

**The IRS Lacks Authority to Independently Verify That Low Income  
Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements**

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**Recommendation 3:** The National Taxpayer Advocate should develop a centralized system to administer the Program Office's LITC grant management processes and procedures.

**Management's Response:** TAS management agreed with this recommendation and entered into an interagency agreement in Fiscal Year 2024 with the Treasury Department's Office of the Chief Information Officer to develop a new grants management system for the LITC Program Office. This system will streamline processes by centralizing operations, reducing manual tasks, and minimizing reliance on other systems.

## Appendix I

### Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the effectiveness of the National Taxpayer Advocate's oversight of the LITC grant program. To accomplish our objective, we:

- Identified policies, procedures, regulations, and other relevant guidance to determine how the Program Office monitored LITC compliance/performance.
- Interviewed subject matter experts from the Program Office including the National Taxpayer Advocate, the Program Office director, budget analysts, advocacy analysts, and the technical advisor to gain an understanding of their roles and responsibilities.
- Reviewed a judgmental sample of grant applications and interim and year-end review summary reports for 15 out of 130 LITCs that were awarded grants in CY 2022.<sup>1</sup> We selected a sample to focus on the information reported by the LITCs and the assessment of the information to determine if the Program Office's process was effective in ensuring that the grant terms were met. To determine our sample selection, we selected the top 15 LITCs with the highest grant amounts. We limited our sample to 15 LITCs based on available resources.
- Reviewed a judgmental sample of 8 of 31 site visit tracking forms and site visit summary reports from the operational site visits conducted during the 2023 grant year. To determine our sample selection, we selected eight LITCs with grant amounts between \$75,000 and \$200,000 from a list of operational site visits conducted by the Program Office. We limited our sample to eight site visits based on available resource.

### Performance of This Review

This review was performed with information obtained from the Program Office located in Washington, D.C., during the period October 2023 through October 2024. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Bryce Kisler, Assistant Inspector General for Audit (Taxpayer Services and Operational Support); Glen Rhoades, Director; Meaghan Tocco, Audit Manager; and Michelle Ruff, Lead Auditor.

### Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the

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<sup>1</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

**The IRS Lacks Authority to Independently Verify That Low Income  
Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements**

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following internal controls were relevant to our audit objective: the I.R.C., Treasury Department and OMB regulations as well as the Program Office's review of LITCs' applications, interim and year-end reports, and site visits. We evaluated these controls by reviewing these policies, procedures, and practices; interviewing Program Office management; and reviewing Program Office-developed interim and year-end review summary and site visit summary reports.

Management's Response to the Draft Report



**Date:** December 4, 2024

**To:** Danny Verneuille  
Acting Deputy Inspector General for Audit

**From:** /s/ Erin Collins  
National Taxpayer Advocate

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**Memorandum Subject:** The IRS Lacks Authority to Independently Verify That Low Income Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements (Audit No.: 202310015)

Thank you for the opportunity to respond to the above-referenced report and for consideration of comments previously submitted. We appreciate your office's evaluation of the Low Income Taxpayer Clinic (LITC) Grant Program and for the recommendations made to improve the program's oversight of grantees.

In response to discussion during the audit fieldwork status meetings, the Taxpayer Advocate Service (TAS) has taken proactive steps to address the report's recommendations. In FY24, we entered into an interagency agreement with the Department of Treasury Office of the Chief Information Officer to develop a new grants management system for the LITC program office. This system will streamline processes by centralizing operations, reducing manual tasks, and minimizing reliance on other systems.

As part of the system's agile development process, we are updating the LITC grant reporting and application forms to incorporate language contained in Recommendation 1. These updates are currently under development. Once finalized, the forms will be submitted to Forms and Publications for formatting and subsequently forwarded to OMB for approval. We anticipate implementing the new grants management system and its updated forms starting in Grant Year 2026, addressing Recommendations 1 and 3.

On November 24, 2024, LITC Director, Tamara Borland reached out to the Point of Contact for the Department of Treasury who coordinates Treasury grantor activities. This communication requested guidance about the process used to request an amendment of the Treasury Compliance Supplement to include our grant specific information. Taking this step will ensure that we are prepared when Treasury next solicits requests for amendment to the supplement.

**The IRS Lacks Authority to Independently Verify That Low Income  
Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements**

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We would like to address a statement on page 5 of the draft audit report you wrote, “If the information in the application package appears to address all the necessary grant requirements, the Program Office will approve funding without further validation of the information for accuracy and credibility.” This statement does not accurately reflect our application review process. We indicate on page 33 of Publication 3319 that “Information within the application may be subject to verification.” As noted in IRM 13.8.1, Low Income Taxpayer Clinic Program Operating Procedures, our review process for current grantees includes evaluating their history of performance, derived from reports, site visits, and interactions. Application evaluations are not solely based upon applicant-provided information it also includes observation of grantees by staff. For clinics with single audits, comprehensive financial data, including sources of restricted and unrestricted funding, expenditures, donations, and internal controls, are reviewed. Furthermore, compliance checks using Sam.gov and IDRS provide additional verification.

In addition to the recommendations in your audit report, the LITC Program Office is exploring additional procedures to strengthen application screening. For example, we plan to update Form 13424-M to collect the license number and state of licensure for key staff members. This information will be submitted with an attestation under the current penalties that the status of the individual’s licensure has been verified, that the license is active, and the licensee is in good standing with the licensing authority.

We value your review and the constructive suggestions for improving the LITC Grant Program. Immediate steps are already underway to address your recommendations.

Should you have any questions, please contact Tamara Borland, LITC Program Office Director at [Tamara.A.Borland@irs.gov](mailto:Tamara.A.Borland@irs.gov) or 202-317-3074.



Erin M. Collins  
National Taxpayer Advocate

**The IRS Lacks Authority to Independently Verify That Low Income  
Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements**

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Attachment

Recommendations

The National Taxpayer Advocate (NTA) should:

**RECOMMENDATION 1**

Expand the attestation under penalty of perjury on forms and notices where taxpayers whose income exceeds the 250 percent poverty level is reported.

**CORRECTIVE ACTION**

We agree. We will update the LITC grant reporting and application forms to incorporate language contained in Recommendation 1. The updated forms will be submitted to Forms and Publications for formatting and subsequently forwarded to OMB for approval.

**IMPLEMENTATION DATE**

December 31, 2026

**RESPONSIBLE OFFICIAL**

Tamara Borland, Director, Low Income Tax Clinic (LITC) Program

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control program.

**RECOMMENDATION 2**

Coordinate with the Department of the Treasury to request that the LITC grant requirements be included within the Treasury Department's Compliance Supplement to ensure that grant recipients are abiding by the rules in I.R.C. 7526.

**CORRECTIVE ACTION**

We agree. We have already contacted the Department of Treasury Point of Contact who coordinates Treasury grantor activities. When the Treasury next solicits requests for amendment to the supplement, we will request an amendment of the Treasury Compliance Supplement to include our grant specific information.

**IMPLEMENTATION DATE**

December 31, 2026

**RESPONSIBLE OFFICIAL**

Erin Collins, National Taxpayer Advocate

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control program.

**RECOMMENDATION 3**

The National Taxpayer Advocate should develop a centralized system that encompasses the Program Office LITC grant management processes and procedures.

**CORRECTIVE ACTION**

We entered into an interagency agreement with the Department of Treasury Office of the Chief Information Officer to develop a new grants management system for the LITC program office in

**The IRS Lacks Authority to Independently Verify That Low Income  
Taxpayer Clinic Grant Recipients Are Meeting Eligibility Requirements**

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FY 2024. This system will streamline processes by centralizing operations, reducing manual tasks, and minimizing reliance on other systems.

**IMPLEMENTATION DATE**

December 31, 2026

**RESPONSIBLE OFFICIAL**

Erin Collins, National Taxpayer Advocate

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control program.

**Abbreviations**

CY	Calendar Year
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
LITC	Low Income Taxpayer Clinic
OMB	Office of Management and Budget
TAS	Taxpayer Advocate Service



**To report fraud, waste, or abuse,  
contact our hotline on the web  
at <https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems  
affecting taxpayers, contact us at [www.tigta.gov/form/suggestions](http://www.tigta.gov/form/suggestions).**

Information you provide is confidential, and you may remain anonymous.