



*Improvements Are Needed to Ensure That
the Volunteer Income Tax Assistance Grant
Program Extends Tax Return Preparation to
Underserved Populations*

September 20, 2017

Reference Number: 2017-40-088

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

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HIGHLIGHTS

IMPROVEMENTS ARE NEEDED TO ENSURE THAT THE VOLUNTEER INCOME TAX ASSISTANCE GRANT PROGRAM EXTENDS TAX RETURN PREPARATION TO UNDERSERVED POPULATIONS

Highlights

Final Report issued on
September 20, 2017

Highlights of Reference Number: 2017-40-088 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The IRS's first goal is to improve service to taxpayers to make voluntary compliance easier. To help achieve this goal, the IRS Volunteer Income Tax Assistance (VITA) Program was implemented. In December 2007, Congress appropriated funds to the IRS to establish and administer a one-year matching grant program and has since appropriated funds for this program annually.

WHY TIGTA DID THE AUDIT

This audit was initiated to evaluate the oversight of the VITA Grant Program to determine whether program objectives are met and awarded funds are used as directed.

WHAT TIGTA FOUND

TIGTA identified that data exist which can be used to measure success in extending coverage to underserved populations. For example, VITA grantees are required to report to the IRS on the number of tax returns prepared at their sites for underserved populations. This information is required to be reported upon completion of the award agreement using *Performance Progress Report-A*. However, the IRS has not established a process to verify the reliability of the data and analyze it to measure the success of the program.

TIGTA's review of the almost 4.5 million tax returns prepared by grantees during Grant Years 2014 through 2016 identified that:

1) volunteers prepared 201,572 (4 percent) returns with an Adjusted Gross Income amount that exceeded the income threshold set for free tax return preparation, including 34,371 returns with an Adjusted Gross Income greater than \$100,000 and 11 returns with an Adjusted Gross Income exceeding \$1 million; 2) the IRS could not verify if 456,220 (10 percent) tax returns with complex tax schedules were prepared by volunteers with advanced certifications; and 3) 15,402 returns were out of scope. Finally, some guidelines and procedures were not current or consistent.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS 1) develop procedures to measure the extent to which the VITA Grant Program increases coverage to underserved populations; 2) identify and communicate with grantees preparing a high percentage of tax returns over the VITA Program income tolerance level to ensure that funds are expended in compliance with congressional intent; 3) ensure that grantees have processes and procedures to confirm that only volunteers with advanced certifications prepare complex tax returns; and 4) ensure that VITA Grant Program internal guidelines are consistent with publications for VITA grantees.

The IRS agreed with recommendations two and four. Although management agreed to recommendation one, their response provides no specific actions to be taken. Since Fiscal Year 2008, Congress has annually appropriated funds with the intent of increasing coverage to underserved populations. As TIGTA reported, the IRS has yet to develop processes and procedures to ensure that the VITA Grant program is meeting its legislative intent.

The IRS did not agree with the recommendation to ensure that only volunteers with advanced certifications prepare complex tax returns. TIGTA is concerned that without a centralized list of volunteers who achieved advanced certification, the IRS does not have reasonable assurance that the 456,220 complex tax returns prepared by volunteers in Grant Years 2014 through 2016 were prepared by volunteers with the appropriate training and certification.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 20, 2017

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Improvements Are Needed to Ensure That the
Volunteer Income Tax Assistance Grant Program Extends Tax Return
Preparation to Underserved Populations (Audit # 201640014)

This report presents the results of our review to evaluate the oversight of the Volunteer Income Tax Assistance Grant Program to determine whether program objectives are met and awarded funds are used as directed. This audit was a part of our Fiscal Year 2016 Annual Audit Plan and addresses the major management challenge of Providing Quality Taxpayer Service Operations.

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

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).



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Abbreviations

GPO	Grant Program Office
GY	Grant Year
IRS	Internal Revenue Service
SPEC	Stakeholder Partnerships, Education, and Communication
VITA	Volunteer Income Tax Assistance



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Background

The Internal Revenue Service (IRS) Volunteer Income Tax Assistance (VITA) Program was implemented in 1969 as part of the Tax Reform Act of 1969¹ to increase the IRS's emphasis on taxpayer education programs. In December 2007, Congress appropriated funds to the IRS to establish and administer a one-year matching grant program in consultation with the Taxpayer Advocate Service.² The following is the language included as part of the appropriation:

...The program shall provide direct funds to enable VITA programs to extend services to underserved populations³ and hardest-to-reach areas, both urban and non-urban, as well as to increase the capacity to file returns electronically, heighten quality control, enhance training of volunteers, and significantly improve the accuracy rate of returns prepared by VITA sites.

Since the original appropriation, Congress has appropriated funds for this program annually. In Fiscal Year⁴ 2008, the IRS established the Grant Program Office (GPO) in its Stakeholder Partnerships, Education, and Communication (SPEC) function to oversee the Tax Counseling for the Elderly and VITA Grant Programs. The GPO is responsible for soliciting and selecting grantees and ensuring that grant money is used according to laws and regulations. Beginning in Fiscal Year 2016, the IRS accepted applications for the VITA Grant Program to include a full two-year period of performance (August 1, 2016, through July 31, 2018). Figure 1 provides a summary of VITA grant funds awarded for Grant Years (GY) 2014 through 2016.

¹ Pub. L. No. 91-172, 83 Stat. 487 (codified as amended in scattered sections of 26 U.S.C. and 42 U.S.C.).

² The Taxpayer Advocate Service is an independent IRS organization that helps taxpayers resolve tax problems and recommends changes to prevent problems.

³ The IRS defines "underserved populations" as low-income taxpayers who may also be over the age of 60; have limited-proficiency speaking English; be disabled; be Native American and/or live in rural, urban or other hard-to-reach areas.

⁴ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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Figure 1: Summary of Grant Funds Awarded

Element	Grant Year		
	2014	2015	2016
Funds Appropriated	\$11.5M	\$12.2M	\$12.2M
Grantees Awarded	200	209	210
Applications Received	348	321	331
Sites	4,921	4,865	4,565
Electronic Returns Filed ⁵	1,344,095	1,629,051	1,444,824
Paper Returns Filed	75,520	73,324	61,514
Total Returns Prepared ⁶	1,419,615	1,702,375	1,506,338
Percentage Electronically Filed	94.7%	95.7%	95.9%

Source: GPO data.

Prior to submitting a grant application, all organizations must:

- Secure a Dun and Bradstreet Data Universal Numbering System number. This number allows the IRS and other organizations to identify entities receiving awards on a location-specific basis as well as other data such as principal names, tradestyles (“doing business as”), and other government data.
- Register with the System for Award Management. This is the system used by the Federal Government to register grantees for contracts.
- Register with Grants.gov. Grants.gov is a system used to submit grant applications electronically and receive updates.

All complete applications meeting initial eligibility requirements undergo a simultaneous two-tier IRS evaluation. This includes a GPO evaluation to ensure that applicants meet eligibility requirements. Figure 2 details applicant eligibility requirements.

⁵ Generally, one return is equal to one taxpayer.

⁶ Our analysis identified instances in which taxpayers filed a paper copy of their tax return after it was electronically filed by the VITA grant site equal to less than 0.5 percent of the total returns prepared.



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Figure 2: Applicant Eligibility Requirements

Eligibility Requirements
<ol style="list-style-type: none">1. Be a tax-exempt organization or government entity.2. Be tax compliant with Federal tax and information reporting requirements.3. Provide matching funds on a dollar-for-dollar basis for all VITA funds awarded.4. Be eligible to receive Federal financial assistance (not be debarred or suspended or have Federal debt preventing the award of Federal financial assistance).5. Have an audit completed when required by 2 C.F.R. Part 200, Subpart F – Audit Requirements.⁷6. File required reports timely if a previous VITA or Tax Counseling for the Elderly grant recipient.

Source: SPEC function guidelines.

In addition, a technical evaluation is conducted by a ranking panel comprised of a SPEC function Territory Manager, Area and headquarters analysts, and tax consultants (relationship manager). During this evaluation, the application is awarded points in the areas listed in Figure 3. These criteria reflect the maximum number of points that may be obtained in each area. The total points awarded helps the IRS determine which applicants receive a VITA grant. Figure 3 shows the steps and criteria used to select grantees.

⁷ *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards.*



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Figure 3: Selection Steps and Criteria for a VITA Grant

Step One	Step Two	Step Three	Step Four
GPO Employees	SPEC function Employees	GPO Employees	SPEC function Executives
Screen all applicants to ensure that they meet eligibility requirements.	Conduct a technical assessment of each applicant and award up to 200 points per applicant using the selection criteria.	Evaluate the application packages.	Approve the selections.

Selection Criteria	Points Awarded
1. Experience with low income and/or return preparation.	40 points.
2. Strength of program.	40 points.
3. VITA target audience.	40 points.
4. Ability to partner or collaborate with multiple organizations.	20 points.
5. Sustainability and growth strategy.	10 points.
6. Quality control process.	40 points.
7. Program measures.	10 points.

Source: SPEC function guidelines.

This review was performed at the IRS Customer Assistance, Relationships, and Education function in the Wage and Investment Division Headquarters in Atlanta, Georgia, during the period June 2016 through June 2017. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

The VITA Grant Program and the grantees that participate play a significant role in the growth of the VITA Program. Overall, more than 40 percent of all tax returns prepared as part of the IRS Volunteer Program are prepared by grantees. In addition, many of the grantees participate year after year, with 88 percent of the GY 2015 grantees having participated in the VITA Grant Program in prior years. Figure 4 shows both the growth in grantee participation as well as the growth in tax returns prepared by these grantees.

**Figure 4: Growth Rates of Grantees and
Returns Prepared Between GYs 2009 and 2016**

Statistic	GY 2009	GY 2016	Percentage Increase
Number of Grantees	111	210	89 percent
Number of Tax Returns Prepared	786,058	1,506,338	92 percent

Source: GPO reports.

**Data Exist Which Can Be Used to Measure Grant Program Success in
Extending Coverage to Underserved Populations**

As we have previously reported,⁸ the IRS has not taken steps to determine whether the VITA Grant Program is in fact increasing tax return preparation coverage to underserved populations (the reason these funds are appropriated). The IRS has data that can be used in an effort to measure program success. For example, VITA grantees are required to report to the IRS on the number of tax returns prepared at their sites for underserved populations. This information is required to be reported upon completion of the award agreement using *Performance Progress Report-A*. As such, the IRS has data on underserved taxpayer populations but has not established a process to verify the reliability of these data and analyze it to measure the success of the program. Figure 5 shows the goals the grantees must report on and the measures to be used to compile the information on *Performance Progress Report-A*.

⁸ Treasury Inspector General for Tax Administration, Ref. No. 2012-40-049, *Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers* (Apr. 2012).



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Figure 5: Goals Required to be Reported on by Grantees

Performance Measures SF-PPR-A							
1. Federal Agency and Organization Element to Which Report is Submitted		2. Federal Grant or Other Identifying Number Assigned by Federal Agency		3a. DUNS 3b. EIN		Page	of Pages
						4. Reporting Period End Date (Month, Day, Year)	
A. Performance Measures							
(1) Measure Number or Label	(2) Objective/Goal Description	(3) Measure	(4) Baseline	(5) Target Year	(6) Project Target	(7) Actual To Date	(8) Explanation
A-01	Returns Prepared						Number of Federal returns prepared.
A-02	Increased electronic filing						Number of returns electronically filed divided by total number of returns prepared.
A-03	Sites Opened						Number of sites opened to prepare returns.
A-04	Returns Prepared for Primary Focus in Application						Number of returns prepared (low income, elderly, limited English proficient, Native American, rural, or disabled).
A-05	Returns Prepared for Secondary Focus in Application						Number of returns prepared (low income, elderly, limited English proficient, Native American, rural, or disabled).

Source: Publication 4883, *Grant Programs Resource Guide for VITA Volunteer Income Tax Assistance and TCE Tax Counseling for the Elderly*.

In addition, the IRS could use Form 1040, *U.S. Individual Income Tax Return*, data to determine whether the taxpayer or taxpayer’s spouse is age 65 or older (elderly). IRS management did note that they began to include minimum return goals in each grantee’s grant agreement starting in Calendar Year 2012. For example, the volume of returns prepared by each grantee was expected to increase by at least 1 percent in the 2017 Filing Season as compared to the 2016 Filing Season. Although the IRS identifies the number of returns prepared by a grantee, the data reported are not sufficient to determine if the VITA Grant Program is successfully extending services to underserved populations. It should be noted that we have previously reported similar concerns:

- In August 2009,⁹ we reported that IRS management planned to measure the success of the VITA Grant Program as it related to whether the program grew and met the geographic and target populations. Management noted that the target population is taxpayers who

⁹ Treasury Inspector General for Tax Administration, Ref. No. 2009-40-125, *Internal Controls for the Volunteer Income Tax Assistance Grant Program Are in Place but Could Be Strengthened* (Aug. 2009).



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are disabled, speak limited English, low income, and elderly. The IRS planned to use data from the 2009 Filing Season to establish a baseline to determine from year to year if the VITA Grant Program is meeting its goals.

- In April 2012, we followed up on the IRS response to our August 2009 recommendation and identified that the IRS still had not established a baseline for the VITA Grant Program to ensure that it is meeting its legislative intent. In addition, the IRS had not established outcome measures or targets to determine if the Volunteer Program is increasing its coverage of underserved populations. In its response to our follow-up report, the IRS did not agree to establish a baseline for the VITA Grant Program and stated that it would continue analysis of available data to ensure that the program is meeting its legislative intent. Without a baseline, it will be difficult for the IRS to determine where to market the program and identify underserved geographic areas that need more coverage.

Congress has appropriated funds for this program annually since Fiscal Year 2008, with the annual appropriation totaling more than \$12 million for Fiscal Year 2016. Legislation associated with this appropriation is specific as to the goal and use of these funds. However, despite the fact that this program has been in place for more than nine years, the IRS is still unable to provide a business case analysis of whether it has increased coverage to underserved populations.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should develop processes and procedures to measure the extent to which the VITA Grant Program increases coverage to underserved populations.

Management's Response: The IRS agreed with this recommendation. The IRS plans to explore the possibility of establishing a baseline for underserved populations for which data are available.

Office of Audit Comment: Although management agreed to this recommendation, their response provides no specific actions to be taken to ensure that funds appropriated by Congress are used as intended. Since Fiscal Year 2008, Congress has annually appropriated funds with the intent of increasing coverage to underserved populations. As we reported, the IRS has yet to develop processes and procedures to ensure that the program is meeting its legislative intent.



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**Grantees Continue to Prepare Tax Returns Outside of the Volunteer
Income Tax Assistance Program Guidelines**

Grantees continue to prepare tax returns for taxpayers with income amounts that exceed the suggested income threshold set for the Volunteer Program. Our review of the almost 4.5 million tax returns prepared by grantees in GYs 2014 through 2016 identified:

- 201,572 (4 percent) tax returns with an income amount that exceeded the income threshold for free tax return preparation. Included in this total are 34,371 returns with an Adjusted Gross Income¹⁰ amount exceeding \$100,000 and 11 returns with an Adjusted Gross Income amount exceeding \$1 million. Figure 6 compares returns prepared with incomes higher than the threshold to the total returns prepared at VITA Grant Program sites.

**Figure 6: Tax Returns Prepared With Incomes
Higher Than Guidelines During GYs 2014 Through 2016**

Grant Year	Total Returns Prepared by Grantees	Returns With Income Higher Than Threshold	Percentage of Returns to Total Returns
2014	1,449,491	63,638	4 percent
2015	1,506,949	69,525	5 percent
2016	1,524,043	68,409	4 percent

Source: Analysis of the Return Transaction File¹¹ for individual tax returns identified as filed through the VITA Grant Program and SPEC function reports.

IRS management stated that VITA Program free tax help is offered to taxpayers who generally make \$54,000 or less,¹² who are disabled, or who speak limited English. However, management did indicate that the income limits are suggestions, and there are no specific rules against preparing returns for individuals with income above these limits. Management noted that some of these returns may be the result of IRS policy to allow volunteers to use the IRS-provided software to prepare tax returns for family members and friends.

In April 2012, we reported the same concern that taxpayers with incomes greater than established annual thresholds were having tax returns prepared by VITA grantees. Figure 7 compares tax returns prepared with incomes higher than the guidelines to the total returns prepared by the VITA Grant Program for GYs 2009 through 2011.

¹⁰ Adjusted Gross Income is defined as gross income minus adjustments to income.

¹¹ Contains data transcribed from initial input of the original individual tax returns during return processing.

¹² Each year, the IRS suggests an income threshold for which free tax preparation will be offered. For GY 2014, the threshold was \$52,000; GY 2015 was \$53,000, and GY 2016 was \$54,000.



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**Figure 7: Tax Returns Prepared With Incomes
Higher Than Guidelines During GYs 2009 Through 2011**

Grant Year	Total Tax Returns	Returns With Income Higher Than Threshold	Percentage of Returns to Total Returns
2009	726,529	68,560	9 percent
2010	842,432	50,969	6 percent
2011	1,001,777	64,420	6 percent

Source: Analysis of the Return Transaction File for individual tax returns identified as filed through the VITA Grant Program and SPEC function reports.

When taxpayers with incomes exceeding the Volunteer Program's income threshold have their tax returns prepared, this limits the resources available to assist those taxpayers for which Congress appropriated the VITA grant funds.

Processes do not ensure that volunteers preparing tax returns with complex schedules have training certification needed to prepare those types of tax returns

Of the almost 4.5 million tax returns prepared by grantees during GYs 2014 to 2016, we identified:

- 456,220 (10 percent) tax returns included tax schedules that should be prepared only by volunteers who have advanced volunteer certifications. Volunteers are trained to assist in the filing of Form 1040 and certain tax schedules and forms. To be covered under the *Volunteer Protection Act*,¹³ volunteers must prepare only the tax returns that are within the scope of the Volunteer Program and for which they are certified. Volunteers must achieve the Advanced Volunteer Certification to prepare Schedule C, *Profit or Loss From Business*,¹⁴ Schedule D, *Capital Gains and Losses*, Schedule E, *Supplemental Income and Loss*, and Schedule F, *Profit or Loss From Farming*.
- 15,402 tax returns included Schedule C with expenses that exceeded the Volunteer Program's thresholds for expenses. IRS guidance states that this type of return is outside the scope of the Volunteer Program. Thus, the taxpayers should have been referred to a

¹³ Pub. L. No. 105-19, 111 Stat. 218. This law was enacted to provide certain protections to volunteers, nonprofit organizations, and governmental entities in lawsuits based on the activities of volunteers.

¹⁴ For Tax Years 2014 and 2015, expenses should not exceed \$10,000. For Tax Year 2016, expenses should not exceed \$25,000. A tax year is 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.



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professional return preparer if they were not the returns of volunteers or their families, IRS employees, or the military.

IRS guidance states that the “VITA Program uses trained volunteers to prepare *basic* tax returns for low-income taxpayers in both urban and nonurban locations including persons with disabilities, non-English-speaking persons, elderly taxpayers, and Native Americans.” VITA guidelines do not require volunteers to deny service to taxpayers with certain complex tax schedules or high income. However, each volunteer site is required to implement a process to ensure that volunteers are assigned returns within their certification level and that out-of-scope returns are not prepared. For example, each site is required to have an Intake/Interview and Quality Review process when preparing tax returns. This includes using Form 13614-C, *Intake/Interview and Quality Review Sheet*, for determining the certification level of the tax return, *e.g.*, basic or advanced. Form 13614-C is designed to assist volunteers responsible for assigning taxpayers to the appropriate IRS tax law certified volunteer preparer.

When we discussed with IRS management their processes for ensuring that tax returns with more complex schedules are only prepared by volunteers with advanced certifications, they stated that each site is responsible for ensuring that complex returns are prepared by a volunteer with the required certification level. To identify a volunteer who prepared a specific return, IRS management must trace the return to a specific site and then trace which volunteer prepared the return through the IRS-issued tax preparation software at that site. They would then need to trace the volunteer’s completion of the required training in its online training program. The IRS has no centralized list of volunteers who achieved advanced certification. However, management stated that only two sites (1 percent) were identified as preparing out-of-scope returns or returns beyond the volunteer’s certification level based on data from the 2017 Filing Season Quality Statistical Sample reviews.¹⁵ Thus, management does not believe another process is needed to verify the training level of volunteers preparing tax returns with complex schedules.

We disagree because our prior review¹⁶ of the Quality Statistical Sample identified issues that compromise the reliability of this program’s reported results. For example, we reported that analysts were not reporting all identified Quality Site Requirement errors, which resulted in the Quality Site Requirements adherence rate being overstated. The analysts should have reported errors on Form 6729, *Site Review Sheet*. However, our evaluation of the Site Review Sheets for all 103 of the 2015 Filing Season site adherence reviews completed by the nine tax analysts responsible for performing these reviews identified that 26 (25 percent) incorrectly rated adherence to Volunteer Program Quality Site Requirements as being met.

¹⁵ A statistically valid sample of volunteer sites are assessed for compliance with Volunteer Program Quality Site Requirements and Volunteer Standards of Conduct.

¹⁶ Treasury Inspector General for Tax Administration, Ref. No. 2016-40-045, *Better Adherence to Procedures Is Needed to Accurately Assess the Volunteer Tax Return Preparation Program* (June 2016).



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Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Identify and communicate with grantees preparing high percentages of tax returns over the VITA Program income level to ensure that funds are expended in compliance with congressional intent.

Management's Response: The IRS agreed with this recommendation and plans to re-emphasize to the grantees the intent of the program.

Recommendation 3: Ensure that grantees have processes and procedures to confirm that only volunteers with advanced certifications prepare complex tax returns.

Management's Response: The IRS disagreed with this recommendation. The IRS responded that it already has processes and procedures in place to confirm and monitor compliance with the requirement that only volunteers with advanced certifications prepare complex tax returns. Publication 5166, *IRS Volunteer Quality Site Requirements*, requires all VITA site coordinators to develop a process to ensure that volunteers are limited to preparing and/or quality reviewing tax returns based on their level of tax law certification. All VITA sites are required to use Form 13614-C for every tax return prepared by an IRS tax law certified volunteer. The site coordinator must verify that the tax return is within the volunteer's certification level during the intake and interview process. If the tax return does not fall within the appropriate certification level, the site coordinator refers the taxpayer to another IRS tax law certified volunteer preparer with the appropriate certification level or to another site that prepares returns at the return's certification level.

Office of Audit Comment: It is clear from the results of our review that the controls the IRS cites above are not sufficient. The IRS is unable to confirm that only volunteers with advanced certifications prepare complex tax returns. The IRS does not have a centralized list of volunteers who achieved advanced certification. As such, the IRS does not have reasonable assurance that the 456,220 complex tax returns prepared by volunteers in GYs 2014 through 2016 were prepared by volunteers with the appropriate training and certification.

Some Guidelines and Procedures Were Not Current or Consistent

Our review of a statistically valid sample of 50 grant applicants that received grants for GY 2015¹⁷ identified that the IRS ensured that all 50 met program selection criteria, including that the grantee organization qualified for a grant and was compliant with tax filing and payment

¹⁷ We selected a statistically valid sample of 50 electronic grant files from the universe of 209 GY 2015 grant files. We used a 40 percent expected error rate; a ± 10 percent precision; and a 90 percent confidence level.



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requirements. However, our review identified that internal guidelines and IRS publications were not always current or consistent and that case file documentation was not always complete. Figure 8 provides examples of internal guidelines and procedures that we identified as not current or consistent with IRS external publications.

Figure 8: Internal Guidelines That Are Not Current or Consistent

Internal Guidelines	Current Status
The GPO will perform a risk assessment of each grantee focusing on their stability, geographic problems, award amount, any prior fraudulent reporting, newness to the VITA Grant Program, and potential public or congressional scrutiny. The GPO is then required to classify the grantee's risk as low, moderate, or high.	The GPO no longer classifies grantee's risk as low, moderate, or high.
Grantees are required to submit their Site Establishment Report on January 31 and September 30. This report provides all sites planned to open or that were opened under the grant.	The Site Establishment Report is due December 1 rather than January 31.
At a minimum, 3 percent growth in the number of tax returns prepared over the prior year is expected from the grantees.	Publication 4671, <i>VITA Grant Program Overview and Application Instructions</i> , Rev. 4-2016, states, under the heading "minimum Federal returns to be accomplished by your program," that "IRS will provide different tax preparation software for filing season 2017. The minimum growth expected over filing season 2016 results is one percent."
Guidelines include a section on Multiyear Grant Opportunities.	Publication 4671 describes the change in frequency of application announcements. Beginning in 2018, grant applicants will be considered for return preparation activities covering two filing seasons instead of one. New multiyear awards are eliminated.
The SPEC function created a comprehensive multitier quality review process. Types of reviews include Grant Administrative Visits.	Publication 4883 states that, "Beginning in 2016, the GPO eliminated administrative reviews and opted to do more education through orientation, just-in-time conference calls, and e-mail communications."

Source: Treasury Inspector General for Tax Administration analysis of IRS guidelines.

When we discussed these examples with management, they indicated that they do update publications each year. However, revisions for internal guidelines were not submitted until the



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2017 request for updates due to a focus on program delivery rather than updating internal guidelines.

Recommendation

Recommendation 4: The Commissioner, Wage and Investment Division, should ensure that VITA Grant Program internal guidelines are current and consistent with publications for VITA grantees.

Management's Response: The IRS agreed with this recommendation. The IRS plans to continue updating the VITA Grant Program internal guidelines during the annual review process, as well as on an as needed basis.



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Appendix I

Detailed Objective, Scope, and Methodology

Our objective was to evaluate the oversight of the VITA Grant Program to determine whether program objectives are met and awarded funds are used as directed. To accomplish our objective, we:

- I. Determined whether grant application processing and selection is helping the IRS meet the VITA Grant Program's intent and goals and ensuring that the most qualified applicants are selected for the program.
 - A. Determined the method used to solicit applications from eligible agencies and organizations for the program.
 - B. To project our results, selected a statistically valid sample of 50 electronic grant files from the universe of 209 GY 2015 grantees. This sample was based on an expected error rate of 40 percent, a precision rate of ± 10 percent, and a confidence interval of 90 percent. Our contracted statistician assisted with developing the sampling plan.
 - C. Using the sample selected in Step I.B., assessed the controls over how applicants are selected to participate in the VITA Grant Program.
- II. Determined how the IRS monitors and reviews the grantee's management of Federal funds to ensure that grant funds are expended appropriately and grantees are held accountable.
 - A. Reviewed VITA Grant Program guidelines and determined if they are updated as processes change; all guidelines are followed; and all reviews, approvals, and decisions are documented.
 - B. Reviewed VITA Grant Program guidelines and determined how the GPO ensures that funds are distributed timely to grantees and that grantees submit required documents and reports timely.
 - C. Determined the number of taxpayers with tax returns prepared by volunteers at VITA grant sites that were outside the income or tax law scope limitations of the VITA Grant Program.



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1. Using the Individual Return Transaction File,¹ obtained all taxpayers with tax returns prepared at a VITA Program site for the 2014 to 2016 Filing Seasons.²
 2. Matched the file in Step II.C.1 to the Site Identification Numbers for VITA Grant recipients.
 3. Determined the number of taxpayers with tax returns prepared by volunteers at VITA grant sites that were outside the income or tax law scope limitations of the VITA Grant Program, such as returns with Schedule C, *Profit or Loss From Business*, income.
- III. Assessed IRS performance measures for the VITA Grant Program.
- A. Identified how the GPO measures geographic coverage and how it determines if the VITA Grant Program is meeting the goal to expand coverage to the underserved populations.
 - B. Determined how the IRS monitors, tracks, and determines if the grantees have met their goals regarding the number of tax returns prepared and the underserved populations the grantee attempted to reach.

Validity and reliability of data from computer-based systems

We validated the data from the Individual Return Transaction File obtained from the Treasury Inspector General for Tax Administration Data Center Warehouse by: 1) reviewing the data for obvious errors in accuracy and completeness and 2) selecting a random sample of cases from each extract to verify that the data elements extracted matched the taxpayer account information in the Integrated Data Retrieval System.³ We determined that the data were valid and reliable for the purposes of this report.

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 following internal controls were relevant to our audit objective: the IRS processes and procedures for VITA Grant Program application processing; monitoring and reviewing the grantees' management of Federal funds; and determining performance of the VITA Grant Program. We evaluated these controls by interviewing IRS management, assessing IRS procedures, and evaluating documentation used to oversee the VITA Grant Program.

¹ Contains data transcribed from initial input of the original individual tax returns during return processing.

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

³ Computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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Appendix II

Major Contributors to This Report

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)

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Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Services and Enforcement
National Taxpayer Advocate
Director, Customer Assistance, Relationships, and Education
Director, Stakeholder Partnerships, Education, and Communication
Director, Office of Audit Coordination



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Appendix IV

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

SEP 08 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin 
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Improvements Are Needed to Ensure That
the Volunteer Income Tax Assistance Grant Program Extends
Tax Return Preparation to Underserved Segments of Taxpayers
(Audit #201640014)

Thank you for the opportunity to review the subject draft report and for acknowledging the significant role of the Volunteer Income Tax Assistance (VITA) Grant Program and the grantees who participate. The VITA Program offers free tax preparation services to taxpayers in low-to-moderate income ranges, as well as taxpayers regardless of income in underserved populations, hardest-to-reach areas, those who may be disabled, limited-English proficient, Native American, Military, and the elderly.

The VITA grant is a matching grant providing funding to qualified applicants to provide VITA services to targeted taxpayer segments. The VITA grant funding was introduced during a time of economic challenges that harmed our partners' ability to maintain or increase services. Partner growth and sustainability are important components in delivering services to our targeted taxpayer segments. The number and locations of tax return preparation sites depend on the willingness of individuals to volunteer. Therefore, recruiting and retaining volunteers are a main priority.

Since the VITA grant's inception in 2008, the Grant Program Office has established appropriate guidelines to ensure VITA grant funds are distributed pursuant to applicable law and regulations. In Fiscal Year 2016, 208 VITA grants totaling \$12 million were awarded and over 1.7 million returns were prepared by grantees. This compares to 111 grantees/partners receiving \$7.4 million, and preparing 786,058 returns in the first year of the program.

We agree some data exists which can be used to measure the Grant Program's success in extending coverage to certain underserved populations. However, data is not



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available for the Limited English Proficient, Persons with Disabilities, and Native American market segments. Although grantees are required to report the numbers of returns prepared for their targeted taxpayer segments, the IRS does not have a way to verify the information because taxpayers are not required to report this information on their tax returns. While we cannot establish baselines for these specific underserved low-income populations, IRS will continue to explore the resources available in an attempt to generate the data needed to measure the success of the grant partners and of the VITA Program.

As highlighted in your report, 96 percent of VITA-prepared tax returns have incomes within current guidelines. While the IRS provides suggestions on income limits, and these limits are a primary consideration in qualifying for VITA services, preparing returns over a specific AGI amount is permissible to the extent doing so fits within the scope of the VITA program. Also, to assist in recruitment and retention efforts, the VITA program guidelines allow volunteers to use the IRS provided software to prepare and electronically file their own tax return and the returns of family and friends. These returns have no income or tax law scope limitations, particularly considering they are generally not prepared during normal site operation hours.

The VITA Program guidelines do not prohibit volunteers from preparing returns of varying complexity as long as they have the training certification needed to prepare those types of tax returns. Publication 5166, *Quality Site Requirements*, requires all VITA site coordinators to develop a process to ensure volunteers are limited to preparing and/or quality-reviewing tax returns based on their level of tax law certification. All VITA sites are required to use Form 13614-C, *Intake/Interview & Quality Review Sheet*, for every tax return prepared by an IRS tax law-certified volunteer. When completing the Intake and Interview Process, the site coordinator must verify that the tax return is within the volunteer's certification level. If the tax return does not fall within the appropriate certification level, the site coordinator refers the taxpayer to another IRS tax law-certified volunteer preparer with the appropriate certification level or to another site that prepares returns at the return's certification level.

Established processes and procedures are in place to monitor certification level compliance. Reviews are conducted on a statistically valid sample of VITA sites during each filing season to determine whether the return was in scope for the VITA Program and within the certification level of the volunteer preparer. Additionally, field site visits are also conducted, which include an assessment of return review accuracy as well as whether the return was in scope for the program and within the volunteer preparer's certification level. Lastly, Link and Learn Taxes (LLT), an e-learning application, provides online courses and certification tests for all individuals interested in volunteering in the VITA and Tax Counseling for the Elderly (TCE) programs. The LLT identifies volunteers who have completed their certifications and that information is used to provide partner-specific information to sites for validation of certifications.



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The report disagrees with our position that another process is not needed to verify the training level of volunteers preparing tax returns with complex schedules. The disagreement is based on the results of a prior TIGTA review¹ conducted during the 2015 filing season that found the Quality Site Requirements (QSR) adherence rate was overstated. We note that the prior findings were not reviewed or tested in this audit. In the two years since that review, those findings have been addressed and resolved with training and managerial reviews. For the 2017 filing season, the importance of consistently evaluating the QSRs was discussed with the Quality Analysts performing that work. Thus, any errors found are now being consistently reported on Form 6729, *Site Review Sheet*. Additionally, during the 2017 filing season, IRS management completed field performance reviews on all Quality Statistical Sample reviewers and found all were consistent in their evaluations. Although your review indicates the number of complex returns prepared, it does not provide findings as to the accuracy of the returns.

In closing, we note that the Grant Program Office has a robust review and documentation process to ensure grantee compliance with reporting requirements and grantee eligibility. We recognize the importance of maintaining current guidelines and procedures, and, in June, 2017, the IRM 22.30.1.5, *Tax Counseling for the Elderly (TCE) and Volunteer Income Tax Assistance (VITA) Grant Programs*, guidelines and procedures were updated.

Attached is our response to your recommendations. If you have any questions, please contact Dietra Grant, Director, Customer Assistance, Relationships and Education, Wage and Investment Division at (470) 639-3443.

Attachment

¹ Treasury Inspector General for Tax Administration, Ref. No. 2016-40-045, *Better Adherence to Procedures Is Needed to Accurately Assess the Volunteer Tax Return Preparation Program* (June 2016).



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Attachment

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should develop processes and procedures to measure the extent to which the VITA Grant Program increases coverage to underserved populations.

CORRECTIVE ACTION

We agree to explore the possibility of establishing a baseline for the underserved populations for which data is available.

IMPLEMENTATION DATE

October 15, 2018

RESPONSIBLE OFFICIAL

Director, Stakeholder Partnerships, Education, and Communication, Customer Assistance, Relationships and Education, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 2

Identify and communicate with grantees preparing high percentages of tax returns over the VITA Program income level to ensure that funds are expended in compliance with congressional intent.

CORRECTIVE ACTION

We agree with this recommendation and will re-communicate with grantees to emphasize the intent of the program. We appreciate that your report highlights that 96 percent of the tax returns prepared are within current income guidelines.

IMPLEMENTATION DATE

January 15, 2018

RESPONSIBLE OFFICIAL

Director, Stakeholder Partnerships, Education, and Communication, Customer Assistance, Relationships and Education, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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



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RECOMMENDATION 3

Ensure that grantees have processes and procedures to confirm that only volunteers with advanced certifications prepare complex tax returns.

CORRECTIVE ACTION

We do not agree with this recommendation. The IRS already has processes and procedures in place to confirm and monitor compliance with the requirement that only volunteers with advanced certifications prepare complex tax returns. Publication 5166, *Quality Site Requirements*, requires all VITA site coordinators to develop a process to ensure volunteers are limited to preparing and/or quality-reviewing tax returns based on their level of tax law certification. All VITA sites are required to use Form 13614-C, *Intake/Interview & Quality Review Sheet*, for every tax return prepared by an IRS tax law-certified volunteer. When completing the Intake and Interview Process, the site coordinator must verify that the tax return is within the volunteer's certification level. If the tax return does not fall within the appropriate certification level, the site coordinator refers the taxpayer to another IRS tax law-certified volunteer preparer with the appropriate certification level or to another site that prepares returns at the return's certification level.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 4

Ensure that VITA Grant Program internal guidelines are current and consistent with publications for VITA grantees.

CORRECTIVE ACTION

We agree with this recommendation and IRS will continue to update the IRM 22.30.1.5, Tax Counseling for the Elderly and VITA Grant Program, during the annual review process, as well as on an as needed basis.

IMPLEMENTATION DATE

October 15, 2018

RESPONSIBLE OFFICIAL

Director, Stakeholder Partnerships, Education, and Communication, Customer Assistance, Relationships and Education, Wage and Investment Division



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CORRECTIVE ACTION MONITORING PLAN

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