



*Accuracy of Volunteer Tax Returns Is  
Improving, but Procedures Are Often Not  
Followed*

**August 29, 2007**

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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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*Phone Number* | 202-927-7037

*Email Address* | [Bonnie.Heald@tigta.treas.gov](mailto:Bonnie.Heald@tigta.treas.gov)

*Web Site* | <http://www.tigta.gov>



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 29, 2007

**MEMORANDUM FOR** COMMISSIONER, WAGE AND INVESTMENT DIVISION

**FROM:** *Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Accuracy of Volunteer Tax Returns Is Improving,  
but Procedures Are Often Not Followed (Audit # 200740019)

This report presents the results of our review to determine whether taxpayers receive quality service, including the accurate preparation of their income tax returns, when visiting Internal Revenue Service (IRS) Volunteer Program<sup>1</sup> sites. This audit is a followup to prior Treasury Inspector General for Tax Administration reviews.<sup>2</sup>

*Impact on the Taxpayer*

The Volunteer Program plays an increasingly important role in achieving the IRS' goal of improving taxpayer service and facilitating participation in the tax system. Although accuracy rates have been increasing, volunteers continue to not follow procedures that assist in the accurate preparation of tax returns. To ensure the continued success of the Volunteer Program, the IRS must focus its oversight on holding volunteers accountable. Incorrectly prepared tax returns increase the risk of taxpayers receiving erroneous payments or not receiving credits to which they are entitled.

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<sup>1</sup> The IRS Volunteer Program includes the Volunteer Income Tax Assistance and Tax Counseling for the Elderly Programs. During this review, the Tax Counseling for the Elderly sites we visited were those sponsored by the American Association of Retired Persons.

<sup>2</sup> See Appendix VIII for a list of these reports.



## *Accuracy of Volunteer Tax Returns Is Improving, but Procedures Are Often Not Followed*

### Synopsis

Our reviews over the last four filing seasons<sup>3</sup> have determined accuracy rates for tax returns prepared at Volunteer Program sites continue to increase.<sup>4</sup> In addition, improvements have been made to the oversight of the Volunteer Program. However, to ensure continued success in the Volunteer Program, the IRS must focus its oversight on holding accountable those volunteers who do not follow required procedures.

Of the 39 tax returns prepared for our auditors by Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly sites for the 2007 Filing Season, 17 (44 percent) were prepared incorrectly. If 10 (59 percent) of these incorrectly prepared tax returns had been filed, the taxpayers would not have received \$2,803 in tax refunds to which they were entitled. Alternatively, if the remaining 7 (41 percent) of the incorrectly prepared tax returns had been filed, the IRS would have refunded \$15,475 incorrectly.

**Accuracy rates increased from 0 percent in the 2004 Filing Season to 56 percent in the 2007 Filing Season.**

Since the 2004 Filing Season, we have reported that volunteers are not following required procedures designed to assist in the accurate preparation of tax returns. During the 2007 Filing Season, volunteers again did not consistently use intake sheets, including the IRS Intake and Interview Sheet (Form 13614). In addition, volunteers did not perform the required interview that assists in the preparation of page two of the intake sheet. Further, Volunteer Program sites either did not always have a quality review process or the quality review process did not always include the required elements (e.g., use of a checklist, use of the intake sheet).

For each of the 17 tax returns incorrectly prepared, 1 or more requirements were not followed. For example:

- For 12 returns (71 percent), the volunteers did not conduct interviews with the auditors.
- For 10 returns (59 percent), the intake sheet was not prepared completely.
- For 2 returns (12 percent), the volunteer used the intake sheet only to obtain the auditor's name and address.
- For 14 returns (82 percent), the sites had either no quality review process (7 sites) or a quality review process that was not in compliance with requirements (7 sites), including volunteers not using the checklist or intake sheet.

<sup>3</sup> The filing season is the period from January through mid-April when most individual income tax returns are filed.

<sup>4</sup> Prior audits included only community-based Volunteer Income Tax Assistance sites.



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Although steps are being taken to protect taxpayer information, encryption software was not included on all computers containing prior year electronically filed (*e-filed*) tax information. Protecting taxpayer information includes using passwords on computers (to prevent unauthorized access to the computers), using tax preparation software that encrypts<sup>5</sup> current year *e-filed* tax information, and notifying taxpayers whose information will be retained longer than the current tax year. Two (33 percent) of the 6 sites we visited that retained prior year *e-filed* tax information did not have encryption software loaded on the 2 computers to protect the prior year *e-filed* tax information. These two computers were provided by the partner organizations, not the IRS.

Partner organizations and their volunteers play a significant role in the IRS' tax return preparation program. The IRS continues to move away from providing tax preparation assistance at its local walk-in offices (Taxpayer Assistance Centers) and is relying more on the Volunteer Program to provide the service. This presents significant challenges to the IRS. The strengths of the Volunteer Program lie with the partner organizations and their volunteers. The IRS has shown a commitment to holding them accountable for following the direction, guidelines, and required processes that have been put in place. This commitment to holding volunteers accountable should be at the forefront to ensure Program success.

### *Recommendations*

We recommended the Commissioner, Wage and Investment Division, (1) require all Volunteer Program sites to use the IRS-developed Form 13614; (2) provide training to site coordinators, focusing on the specific responsibilities for ensuring volunteer compliance with established requirements; (3) strengthen the policy on actions to be taken when a site is not in compliance with requirements; and (4) ensure taxpayers receive required notification if prior year tax information is maintained and encryption software is loaded on all computers on which prior year *e-filed* tax information is retained.

### *Response*

Management agreed with Recommendations 2 and 3 but disagreed with Recommendations 1 and 4. For Fiscal Year 2008, the IRS will develop a consistent plan and process for volunteer site coordinator training and will review, revise, and strengthen policies to address the consequences for noncompliant sites.

Management did not agree with Recommendation 1 requiring use of the IRS-developed Form 13614. Management noted they will continue to require the use of an intake and interview process and the Quality Assurance Staff will ensure partner organization compliance with partner

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<sup>5</sup> Encryption software protects the confidentiality of data stored on a computer.



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organization-developed intake sheets. For Recommendation 4, management stated the electronic tax preparation software provided in Fiscal Year 2008 will encrypt all current and prior year *e-filed* data; however, requirements for taxpayer notification are sufficiently addressed in *Privacy and Confidentiality-A Public Trust* (Publication 4299). Management's complete response to the draft report is included as Appendix IX.

### *Office of Audit Comment*

IRS management disagreed with Recommendation 1 requiring all Volunteer Program sites to use the IRS-developed Form 13614 with the option of the site including additional locally developed information. We have repeatedly reported that sites are not including all required questions on their intake sheets. The IRS allows a site to create its own intake sheet, which must include those questions it requires. However, required questions continue to not be included. In addition, in response to our last report, the IRS had developed a process to ensure intake sheets contained all required questions. This process failed to ensure partner organization compliance; we determined 38 percent of the intake sheets reviewed did not include required questions.

Concerning Recommendation 4, while management stated they disagreed with the recommendation, their planned actions together with Publication 4299 address the intent of the recommendation. We did not take exception to the adequacy of Publication 4299. We reported concerns that the Publication is not always being provided to taxpayers. However, management responded that they would continue to stress that partner organizations obtain permission from taxpayers for any data retained beyond December 31 of each year.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.



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## *Abbreviations*

AARP	American Association of Retired Persons
<i>e-file; e-filed</i>	Electronic Filing; Electronically Filed
IRS	Internal Revenue Service
MQSR	Minimum Quality Site Requirement
SPEC	Stakeholder Partnerships, Education, and Communication
VITA	Volunteer Income Tax Assistance
VRPP-QIP	Volunteer Return Preparation Program-Quality Improvement Process



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## *Background*

The Internal Revenue Service (IRS) Volunteer Income Tax Assistance (VITA) Program originated in 1969 due to enactment of the Tax Reform Act of 1969<sup>1</sup> and an increased emphasis on taxpayer education programs. Emphasis has focused continually on expanding the VITA Program through increased recruitment of social service, nonprofit, corporate, financial, educational, and government organizations; involvement of the military on a national level; and expansion of assistance provided to the limited-English-proficient community.

The Tax Counseling for the Elderly Program provides free tax help to people age 60 and older. The Revenue Act of 1978<sup>2</sup> authorized the IRS to enter into agreements with private or nongovernmental, public, nonprofit agencies and organizations to provide training and technical assistance to volunteers who provide free tax counseling and assistance to elderly individuals in the preparation of their Federal income tax returns.

The law authorizes an appropriation of special funds, in the form of grants, to provide tax assistance to persons age 60 or older. The IRS receives the funds as a line item in the budget appropriation. The total funds are distributed to the sponsors<sup>3</sup> for their expenses.

***Accurately prepared tax returns  
establish credibility in and the  
integrity of the Volunteer Program.***

The IRS Volunteer Program includes VITA sites operated in partnership with the military and with various community-based organizations,<sup>4</sup> as well as sites operated by the Tax Counseling for the Elderly Program and the American Association of Retired Persons (AARP). This audit included an assessment of tax returns prepared at community-based VITA sites and Tax Counseling for the Elderly sites sponsored by the AARP. During the 2006 Filing Season,<sup>5</sup> these sites were involved in the preparation of 1,735,231<sup>6</sup> tax returns. Figure 1 provides a breakdown of the Volunteer Program and the volumes of tax returns prepared during the 2006 Filing Season.

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

<sup>2</sup> Pub. L. No. 95-600, 92 Stat. 2810.

<sup>3</sup> A sponsor would be similar to the American Association of Retired Persons.

<sup>4</sup> Some community-based VITA sites are located in buildings occupied by one or more IRS offices.

<sup>5</sup> The 2006 Filing Season relates to the processing of Tax Year 2005 tax returns. The filing season is the period from January through mid-April when most individual income tax returns are filed.

<sup>6</sup> Total of 676,651 completed at community-based VITA sites and 1,058,580 completed at AARP-sponsored sites.



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**Figure 1: Tax Year 2005 Tax Returns Prepared by the Volunteer Program**

Volunteer Program	Volume of Tax Returns Prepared	Percentage
VITA	645,117	30.88%
Military VITA	295,583	14.15%
Colocated VITA*	31,534	1.51%
Tax Counseling for the Elderly (Non-AARP)	39,287	1.88%
Tax Counseling for the Elderly (AARP)	1,058,580	50.66%
Other	19,299	0.92%
<b>Totals:</b>	<b>2,089,400</b>	<b>100.00%</b>

Source: Treasury Inspector General for Tax Administration analysis of data retrieved from the IRS management information system containing Tax Year 2005 filing information.

\* = Community-based VITA sites that are located in buildings occupied by one or more IRS offices.

The Volunteer Program plays an increasingly important role in achieving the IRS' goal of improving taxpayer service and facilitating participation in the tax system. It provides no-cost Federal tax return preparation and electronic filing (*e-filing*) directed toward underserved segments of individual taxpayers, including low- to moderate-income, elderly, disabled and limited-English-proficient taxpayers. These taxpayers frequently are involved in complex family situations that make it difficult to correctly understand and apply the tax law.

The IRS Stakeholder Partnerships, Education, and Communication (SPEC) function is responsible for providing oversight of the Volunteer Program, which includes determining policies and procedures, developing products and training material, and monitoring and managing Volunteer Program activity. The SPEC function's business objectives include increasing access to tax preparation services for low-income taxpayers, increasing *e-filing*, and enhancing tax return accuracy.

**Tax scenarios used by auditors reflected characteristics of taxpayers who seek assistance from the Volunteer Program**

To ensure the 2 tax scenarios used in this review reflected the characteristics of taxpayers who seek assistance from the Volunteer Program, we developed the scenarios based on tax filing characteristics of the 1,735,231 individuals that used community-based VITA sites and AARP sites to have their Tax Year 2005 tax returns prepared. These taxpayers had average earnings of \$17,872 (community-based VITA sites) and \$23,469 (AARP-sponsored sites). Appendix IV provides additional key characteristics of these individuals.



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Further, we designed the scenarios to include tax law topics that assessed the volunteers' use of the tools the SPEC function had created to ensure accurate tax returns are prepared. The two scenarios included tax topics related to five of the six credits taxpayers most often claimed on the Tax Year 2005 returns prepared by community-based VITA and AARP sites. The dollar amount of these 5 credits represented more than 49 percent (approximately \$779 million) of the more than 1.5 billion in refunds shown on the tax returns for these taxpayers. Taxpayers whose tax returns include 1 or more of the 5 credits in our scenarios accounted for 779,122 (45 percent) of the 1,735,231 tax returns prepared, based on our analysis of all Tax Year 2005 volunteer-prepared tax returns. The two scenarios developed for this review were:

**Scenario 1** – The taxpayer was divorced and lived with his or her 8-year-old child. The taxpayer had the same job working as a clerk throughout 2006. Wages reported on the Wage and Tax Statement (Form W-2) totaled \$26,542. The taxpayer was paid biweekly and contributed to a 401(k) plan. The taxpayer received a statement of Interest Income (Form 1099-INT) totaling \$56.14. The taxpayer received \$325 a month for child support. The taxpayer had dependent care expenses totaling \$1,112.

An accurately prepared tax return would result in the taxpayer receiving a refund of \$2,327. The tax return preparer would have correctly determined the taxpayer's filing status was Head of Household and the dependency exemption could be claimed. Additionally, the taxpayer qualified for an Earned Income Tax Credit of \$867, a Child Tax Credit of \$910, and an Additional Child Tax Credit of \$90. The taxpayer would also qualify for a Child and Dependent Care Credit of \$322, a Retirement Savings Contribution Credit of \$94, and a Telephone Excise Tax Refund of \$40.

**Scenario 2** – The taxpayer was single, had never been married, and lived with his or her sister. The taxpayer had 2 children, ages 6 and 8, that lived with the taxpayer in the home of the taxpayer's sister during school vacations, including the months of June, July, and August (summer). The children lived with the other parent during the school year. The taxpayer worked a part-time evening job as a clerk and was paid \$14,364. The taxpayer's sister earned \$48,000 in 2006. The taxpayer attended college part time, and the cost was paid for by the taxpayer's sister.

An accurately prepared tax return would result in the taxpayer receiving a refund of \$31. The preparer would have correctly determined the taxpayer's filing status was Single. Additionally, because the taxpayer did not provide more than one-half of the support for the children, they could not be claimed as dependents by the taxpayer for Child Tax Credit purposes. The Earned Income Tax Credit would not be available to the taxpayer because earned income exceeded the maximum allowable amount and because the children did not live with the taxpayer for more than one-half of the year. The taxpayer would qualify for a Telephone Excise Tax Refund of \$30.

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 December 2006 through May 2007. Additionally, from February through April 2007,



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Treasury Inspector General for Tax Administration auditors performed 39 anonymous visits (called shopping) and had 39 tax returns<sup>7</sup> prepared at judgmentally selected Volunteer Program sites located in 13 States. Appendix V provides a list of the 13 States and the specific cities where the sites were located. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>7</sup> Of the 39 prepared tax returns, 13 were prepared at AARP-sponsored sites and 26 were prepared at community-based VITA sites.



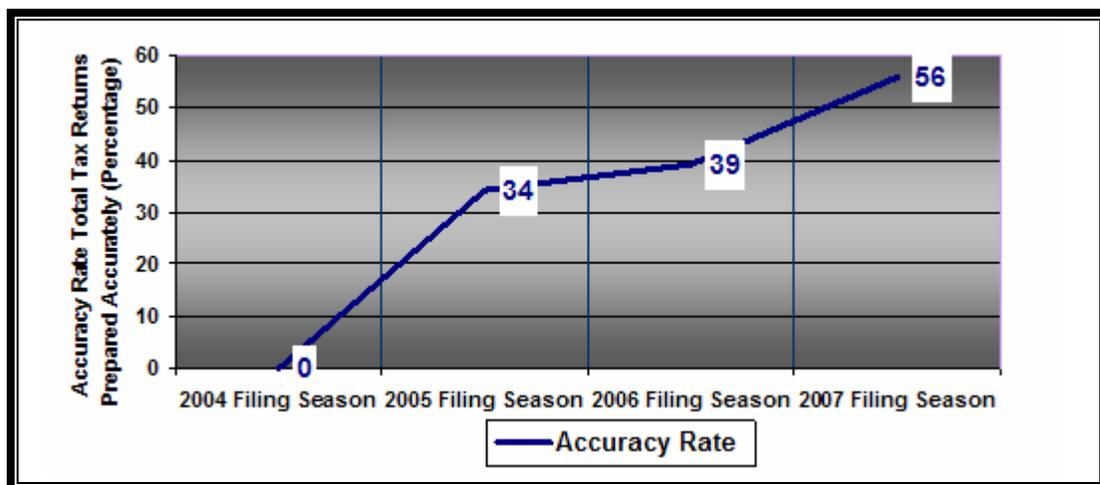
## Accuracy of Volunteer Tax Returns Is Improving, but Procedures Are Often Not Followed

### Results of Review

#### Accuracy Rates Continue to Increase; However, Quality Site Requirements Are Not Being Followed

Accuracy rates for tax returns prepared at Volunteer Program sites have continued to increase over the last four filing seasons.<sup>8</sup> Figure 2 shows that rates have increased from 0 percent completed correctly in the 2004 Filing Season to 56 percent completed correctly in the 2007 Filing Season.

**Figure 2: Overall Tax Return Accuracy Rates for the 2004-2007 Filing Seasons**



Source: Tax returns prepared for our auditors by volunteers for the 2004-2007 Filing Seasons.

The SPEC function has made improvements in its oversight of the Volunteer Program. SPEC function management noted that the participation of Volunteer Program partner organizations in the development and implementation of the quality program has been a key factor in the consistent improvement of quality in the Volunteer Program over the last 4 years. Partner organizations have continued to show an increasing commitment to improving the quality of tax returns prepared at volunteer sites. However, to ensure the continued success of the Program, the IRS must focus oversight on holding volunteers accountable when they do not follow required procedures.

<sup>8</sup> Prior audits included only community-based VITA sites.



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Since the 2004 Filing Season, we have reported that VITA site volunteers are not following required procedures designed to assist in the accurate preparation of tax returns. During the 2007 Filing Season, volunteers again did not consistently use intake sheets, including the IRS Intake and Interview Sheet (Form 13614), and perform the required interview that assists in the preparation of the intake sheet. Further, Volunteer Program sites either did not always have a quality review process or did not have a quality review process that always included the required elements (e.g., use of a checklist, use of the intake sheet).

Of the 39 tax returns we had prepared for Filing Season 2007, 17 (44 percent) were prepared incorrectly (56 percent accuracy rate).<sup>9</sup> If 10 (59 percent) of these incorrectly prepared tax returns had been filed, the taxpayers would not have received \$2,803 in tax refunds to which they were entitled. Specific credits not received included the Child Tax Credit, Additional Child Tax Credit, Child and Dependent Care Credit, Earned Income Tax Credit, and Retirement Savings Contribution Credit. Alternatively, if the remaining 7 (41 percent) of the incorrectly prepared tax returns had been filed, the IRS would have refunded \$15,475 incorrectly. Overstated refunds resulted from taxpayers incorrectly receiving the Child Tax Credit and Additional Child Tax Credit, dependency exemption, Child and Dependent Care Credit, and/or Earned Income Tax Credit.<sup>10</sup> Figure 3 shows a 4-year trend analysis of tax law accuracy at Volunteer Program sites for the tax law topics included in our two scenarios.

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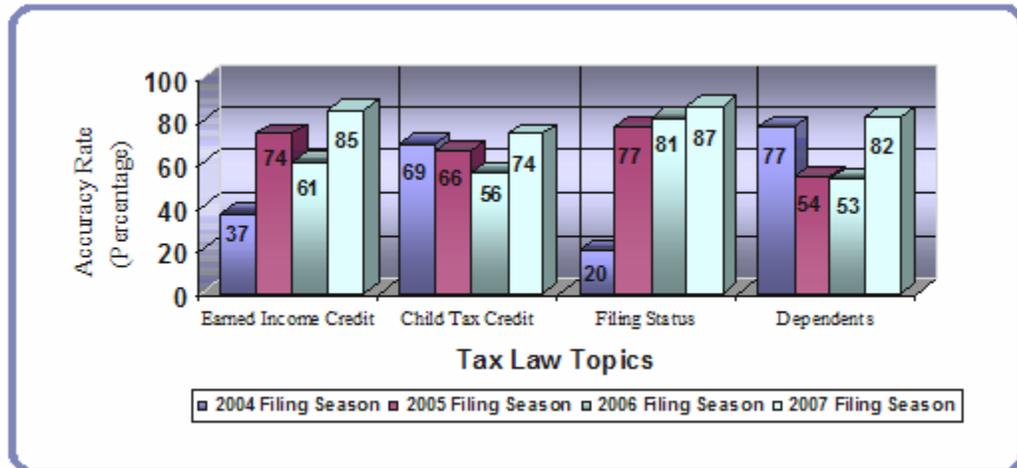
<sup>9</sup> In comparison, as of April 19, 2007, the 39 tax returns prepared during shopping visits conducted by SPEC function personnel had an overall accuracy rate of 64 percent.

<sup>10</sup> Appendix VI presents details of these results. Appendix VII presents results by tax scenario.



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**Figure 3: Comparison of Tax Law Accuracy Rates for the 2004-2007 Filing Seasons<sup>11</sup>**



Source: Tax returns prepared for our auditors by volunteers during the 2004-2007 Filing Seasons.

**The SPEC function has improved its oversight of the Volunteer Program**

Accuracy rates have improved with the development and continued refinement of the Volunteer Return Preparation Program-Quality Improvement Process (VRPP-QIP), which has established procedures and controls to ensure a taxpayer's tax return is accurate based on the supporting documents provided by the taxpayer, the interview with the taxpayer, and the intake and interview sheet.



Enhancements to the Volunteer Program for 2007 Filing Season include the development of nine Minimum Quality Site Requirements (MQSR). The procedures are not new to the Volunteer Program; however, the MQSR made many of the prior procedures requirements. These Requirements are designed to ensure consistent operation of Volunteer Program sites and to provide taxpayers with the confidence that they are receiving accurate tax return preparation and quality service.

The IRS continues its commitment to providing top-quality service to all taxpayers who visit Volunteer Program sites, especially low- to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. The IRS initiated a Project in October 2006, to validate whether the VRPP-QIP is a clear, prescribed process the SPEC function can use to train its

<sup>11</sup> Only tax law topics included in both follow-up reviews and this review are included in this comparison (see Appendix VII for a complete list of tax topics addressed in this review).



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volunteers, identify opportunities for improvement, and implement any necessary changes. The Project team expects to release its report to the IRS management in June 2007.

Partner organizations and their volunteers play a significant role in the IRS' tax return preparation program. The IRS continues to move away from providing tax preparation assistance at its local walk-in offices (Taxpayer Assistance Centers) and is relying more on the Volunteer Program and its partner organizations to provide the service. This presents significant challenges to the IRS and the SPEC function. The strengths of the Volunteer Program lie with the partner organizations and their volunteers. The SPEC function has shown a commitment to

***Oversight should shift from evaluating the process to holding accountable those volunteers who do not comply with the process.***

holding them accountable for following the direction, guidelines, and required processes that have been put in place. However, this commitment to holding volunteers accountable should be at the forefront to ensure Volunteer Program success.

### **Volunteers continue to not follow procedures that assist in the accurate preparation of tax returns**

For each of the 17 tax returns prepared incorrectly, 1 or more elements of the MQSR were not followed. For example:

- For 12 returns (71 percent), the volunteers did not conduct interviews with the auditors.
- For 10 returns (59 percent), the intake sheet was not prepared completely.
- For 2 returns (12 percent), the volunteer used the intake sheet only to obtain the auditor's name and address.
- For 14 returns (82 percent), the sites had either no quality review process (7 sites) or a quality review process that was not in compliance with SPEC function requirements (7 sites), including volunteers not using the checklist or the intake sheet.

The MQSR includes the following:

- All volunteers must use an intake and interview process, including completion of an intake and interview sheet. This includes (1) an interview with the taxpayer, (2) use of Form 13614 or a partner organization-developed intake sheet with the same questions, (3) confirmation of the taxpayer's responses on the Form 13614 (or similar form), and (4) review of supporting documentation.
- A quality review process must be in place and functioning. This includes volunteer quality reviewers using the intake and interview sheet, taxpayer-provided documentation,



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and the completed tax return as part of the quality review process and using a quality review checklist.<sup>12</sup>

When a Volunteer Program site is not in compliance with a particular MQSR, the SPEC function's policy is to work with the site and assist it with becoming compliant as soon as possible. Any remedy offered should provide the assistance and support necessary to bring the site into compliance with the MQSR. This may include discussions, counseling, and/or mentoring assistance with the site within a reasonable period. Withdrawing support from a site should be the last resort.<sup>13</sup>

Since the 2004 Filing Season, we have reported that volunteers do not use all tools designed to assist in the accurate preparation of tax returns (Appendix VIII presents a list of these reports). During the course of this audit, we provided SPEC function management with observations from our anonymous visits, including specific examples of noncompliance with site MQSR. Based on our input, management contacted representatives from the sites to discuss the issues we had presented and requested corrective actions to be taken.

***Since the 2004 Filing Season, we have reported that volunteers do not use all tools designed to assist in the accurate preparation of tax returns.***

Site coordinators are volunteers who provide coordination, organization, and supervision for all aspects of a Volunteer Program site, including overseeing the site's operation during the filing season and ensuring the site is using an intake and interview process as well as a quality review process. Discussions with site coordinators and volunteers associated with the sites that incorrectly prepared tax returns confirmed both site coordinators and volunteers were aware of the requirement to have a quality review process. Explanations for not having a quality review process included (1) there was no quality review checklist available at the site, (2) a quality review was performed only when there were complex issues, and (3) the site coordinator was planning to remind volunteers to conduct a review. In other instances, the site coordinators could not provide explanations as to why there was no quality review process.

The SPEC function also conducts shopping visits as part of its quality review program. The results of these visits confirmed the sites were not consistently complying with the MQSR. Observations from the 39 SPEC function shopping visits showed:

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<sup>12</sup> Required checklists include IRS documents (e.g., Quality Review Checklist (Form 8158 (EN/SP)), *Important Tax Records* (Publication 730), and *Volunteer Resource Guide* (Publication 4012)) or a locally developed checklist that contains the same information.

<sup>13</sup> IRS support includes software, computers, printers, financial assistance, grants, and VITA and Tax Counseling for the Elderly logo references.



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- Twelve percent of the sites did not use the intake sheet during tax return preparation.
- Thirty-six percent of the sites did not conduct an interview with the shopper.
- Forty-four percent of the sites did not have the required quality review process.

In addition, we have previously reported that intake sheets do not contain all critical questions. The SPEC function had developed Form 13614, which contains a standardized list of required questions, to guide volunteers when interviewing taxpayers. Every Volunteer Program site is required to use an intake sheet. Although a site is permitted to create its own intake sheet, this sheet must include those questions the SPEC function designates as required and that are included on Form 13614.

Fifteen (38 percent) of the 39 sites we visited used an intake sheet that did not contain all required questions. In response to our last report, the IRS had developed a process requiring that SPEC function employees obtain copies of intake sheets from the sites they oversee prior to the start of the 2007 Filing Season, to ensure intake sheets contained all required questions. This process was not effective for various reasons: the partner organization changed the intake sheet after the SPEC function's review, the partner organization did not make the recommended changes based on SPEC function review, or function employees did not consistently follow requirements to review intake sheets.

SPEC function management is reluctant to require that all sites use Form 13614. For example, one partner organization will not use Forms 13614, based on a prohibition from its Office of General Counsel. The partner organization cites the inclusion of Social Security Numbers on Form 13614 as one of the reasons it opposes using the Form. The partner organization sees no value in including Social Security Numbers on the intake sheet and believes inclusion needlessly increases the risk of stolen identities. However, this does not address why all the required questions are not included on the partner organization's intake sheet.

Incorrectly prepared tax returns increase the risk of taxpayers receiving erroneous payments or not receiving credits to which they are entitled. This may also create additional burden on taxpayers if the IRS later finds potential errors on the tax returns and requires the taxpayers to face the demands of IRS audits.

### ***Recommendations***

The Commissioner, Wage and Investment Division, should:

**Recommendation 1:** Require all Volunteer Program sites to use the IRS-developed Form 13614, with the option of the site including additional locally developed information.

**Management's Response:** IRS management did not agree with the recommendation. For 2 years, the SPEC function has required the use of an intake and interview sheet in conjunction with the volunteer's interview with the taxpayer. The SPEC function will



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continue to require the use of an intake and interview process that includes an intake sheet, such as Form 13614 or partner organization-developed equivalent, to prompt the return preparer to ask questions necessary for accurate return preparation.

**Office of Audit Comment:** We have repeatedly reported that sites are not including all required questions on their intake sheets. The SPEC function allows a site to create its own intake sheet, which must include those questions the SPEC function requires. However, required questions continue to not be included. In addition, in response to our last report, the IRS had developed a process to ensure intake sheets contained all required questions. This process failed to ensure partner organization compliance; we determined 38 percent of the intake sheets reviewed did not include required questions.

**Recommendation 2:** Provide training to site coordinators, focusing on the specific responsibilities for ensuring volunteer compliance with the MQSR.

**Management's Response:** IRS management agreed with this recommendation. For Fiscal Year 2008, the SPEC function will focus on developing a consistent plan and process for volunteer site coordinators' training.

**Recommendation 3:** Strengthen the policy on actions to be taken when a site is not in compliance with the MQSR, including specific actions that will be taken to ensure the site remains compliant.

**Management's Response:** IRS management agreed with this recommendation. In Fiscal Year 2007, the SPEC function implemented a policy to address the consequences for noncompliant sites. For Fiscal Year 2008, the Quality Assurance Staff will review, revise, and strengthen this policy, as necessary.

### ***Steps Are Taken to Protect Taxpayer Information at Volunteer Program Sites***

Steps are being taken to protect taxpayer information, including using passwords to protect computers (prevents unauthorized access to the computers), using tax preparation software that encrypts<sup>14</sup> current year *e-filed* tax information, and notifying taxpayers whose information will be retained longer than the current tax year. However, encryption software was not included on all computers containing prior year *e-filed* tax information.

To promote *e-filing*, the IRS provides computers and tax preparation software to Volunteer Program partner organizations. SPEC function management stated that all IRS-provided computers are shipped to sites with encryption software loaded. In some cases, the partner organizations provide the computers. The SPEC function provided approximately

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<sup>14</sup> Encryption software protects the confidentiality of data stored on a computer.



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## *Accuracy of Volunteer Tax Returns Is Improving, but Procedures Are Often Not Followed*

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9,400 computers to volunteers for use in the 2007 Filing Season. As of April 21, 2007, Volunteer Program sites had prepared 2,422,169 tax returns; 2,175,108 (90 percent) were *e-filed*.

The SPEC function stresses to its volunteers that the public trust must be protected and confidentiality of the taxpayer information provided must be guaranteed. To this end, the IRS developed the *Privacy and Confidentiality-A Public Trust* (Publication 4299), which establishes guidelines for volunteers to follow to protect taxpayer information. The Volunteer Protection Act of 1997<sup>15</sup> states that, if a volunteer willfully discloses information, fails to protect personal information, or is otherwise flagrantly irresponsible with information entrusted to him or her, criminal charges or punitive damages could be brought against the volunteer.

Thirty-eight (97 percent) of the 39 tax returns prepared for our auditors were created on a computer with a tax software package that encrypts the current year *e-filed* tax information. The remaining tax return was prepared on paper. For all but 1 of the 38 returns, a password was used to protect access to the computer. Most passwords were universal to the site and not computer specific.

***Tax information is regarded as a prime target for identity thieves.***

However, not all sites that retain prior year *e-filed* tax information had encryption software loaded on the computers to protect this information. Two (33 percent) of the 6 sites we visited that retained prior year *e-filed* tax information did not have encryption software loaded on the 2 computers to protect the prior year *e-filed* tax information. These two computers had been provided by the partner organizations.

Also, 1 (17 percent) of the 6 sites that retained prior year tax information did not provide taxpayers with the required notification that this information was being retained because the site retains the information in an electronic format and considers this storage as an acceptable practice, so taxpayer information is not subjected to disclosure. Specifically, SPEC function procedures require that partner organizations with a need to retain prior year *e-filed* tax information provide written notice to customers outlining what information will be retained and for how long, how the information will be used, and that the information will be protected. Partner organizations are required to obtain customer approval of the notification.

If a computer without encryption software that contains prior year *e-filed* tax information is stolen, the perpetrator may be able to inappropriately access this information. Information on tax forms (including names; Social Security Numbers; and income, employment, and bank account details) is regarded as a prime target for identity thieves. SPEC function management indicated that, for the 2008 Filing Season, changes are being made to the tax preparation software package that will include encrypting prior year *e-filed* tax information.

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<sup>15</sup> Pub. L. No. 105-19.



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## **Recommendation**

**Recommendation 4:** The Commissioner, Wage and Investment Division, should ensure taxpayers receive required notification if prior year tax information is maintained, even if the information is in an electronic format, and ensure encryption software is loaded on all computers (including partner organization-provided computers) on which prior year *e-filed* tax information is retained.

**Management's Response:** IRS management disagreed with this recommendation. They believe the requirements for taxpayer notification are sufficiently addressed in Publication 4299. The SPEC function will continue to stress that partner organizations obtain permission from the taxpayer for any data retained beyond December 31 of each year. In addition, the electronic tax preparation software provided in Fiscal Year 2008 will encrypt all current and prior year *e-filed* data.

**Office of Audit Comment:** While management stated they disagreed with the recommendation, their planned actions together with Publication 4299 address the intent of the recommendation. We did not take exception to the adequacy of Publication 4299. We reported concerns that the Publication is not always being provided to taxpayers. However, management responded they would continue to stress that partner organizations obtain permission from taxpayers for any data retained beyond December 31 of each year.



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*Accuracy of Volunteer Tax Returns Is Improving, but Procedures  
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## Appendix I

### *Detailed Objectives, Scope, and Methodology*

The overall objective of this review was to determine whether taxpayers receive quality service, including the accurate preparation of their income tax returns, when visiting Volunteer Program<sup>1</sup> sites. We also determined whether Volunteer Program sites were in compliance with privacy and security guidelines relating to the protection of taxpayer information. This review was limited to community-based VITA sites and Tax Counseling for the Elderly sites sponsored by the AARP. To accomplish the objectives, we:

- I. Determined whether Volunteer Program sites were accurately preparing individual income tax returns based on facts provided by taxpayers.
  - A. Selected a judgmental sample of 39 VITA/Colocated VITA<sup>2</sup> and AARP sites nationwide and attempted to have a tax return prepared. We selected sites in 13 cities, with a total of 3 VITA/Colocated VITA and AARP sites being selected in each city. Site selection was based on the volume of tax returns prepared by the sites, auditor resources, and the sites' proximity to major cities. The population of Volunteer Program sites is not fixed because sites open and close throughout the filing season.<sup>3</sup> Therefore, we could not determine the total population of Volunteer Program sites and could not do a statistical sample. See Appendix V for a list of cities and States selected. At each site, an auditor:
    1. Asked to have his or her individual income tax return prepared using the information from the scenarios we had prepared, to address questions included on intake sheets or asked by the volunteer preparing the tax return.
    2. Documented specific information as it relates to the preparation of the tax return.
  - B. Determined whether the tax return prepared by the volunteer was correct, including whether the volunteer properly evaluated eligibility for deductions, exemptions, and credits claimed or denied.
  - C. If tax returns were prepared incorrectly, determined why and calculated the potential impact on taxpayers and tax revenue.

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<sup>1</sup> The IRS Volunteer Program includes the VITA and Tax Counseling for the Elderly Programs.

<sup>2</sup> Some community-based VITA sites are located in buildings occupied by one or more IRS offices.

<sup>3</sup> The filing season is the period from January through mid-April when most individual income tax returns are filed.



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- II. Determined whether the Volunteer Program sites were in compliance with privacy and security guidelines relating to the protection of taxpayer information.
  - A. Discussed with IRS management Volunteer Program guidelines relative to privacy and security of taxpayer information.
  - B. At the completion of the tax return but subsequent to the auditor identifying himself or herself, determined whether the volunteer's computer was password-protected and encryption software was loaded on the computer. In addition, we determined whether taxpayer information was retained by sites visited.
  - C. If sites were not in compliance with privacy and security guidelines, determined why and calculated the potential impact on taxpayers who visited the sites to have their tax returns prepared.



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**Appendix II**

*Major Contributors to This Report*

Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Augusta R. Cook, Director

Russell P. Martin, Audit Manager

Roberta Fuller, Lead Auditor

Pamela DeSimone, Senior Auditor

Tracy Harper, Senior Auditor

Robert Howes, Senior Auditor

Jerry Douglas, Auditor

Mary Keyes, Auditor



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**Appendix III**

*Report Distribution List*

Acting Commissioner C  
Office of the Commissioner – Attn: Acting Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division  
SE:W:CAR  
Director, Strategy and Finance, Wage and Investment Division SE:W:S  
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI  
Director, Stakeholder Partnerships, Education, and Communication, Wage and Investment  
Division SE:W:CAR:SPEC  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S



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**Appendix IV**

*General Characteristics of Tax Year 2005 Tax Returns Prepared by the Volunteer Program<sup>1</sup>*

Type of Tax Return	VITA		Tax Counseling for the Elderly (AARP)	
	Tax Return Volume	Percentage of Total	Tax Return Volume	Percentage of Total
U.S. Individual Income Tax Return (Form 1040)	538,521	79.59%	1,001,425	94.60%
Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ)	57,749	8.53%	14,289	1.35%
U.S. Individual Income Tax Return (Form 1040A)	72,751	10.75%	42,298	4.00%
U.S. Nonresident Alien Income Tax Return (Form 1040NR)	357	0.05%	37	0.00%
U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents (Form 1040NR-EZ)	6,888	1.02%	477	0.05%
U.S. Individual Income Tax Return (PC) (Form 1040PC)	378	0.06%	52	0.00%
U.S. Self-Employment Tax Return – Puerto Rico (Form 1040-PR)	6	0.00%	2	0.00%
Other	1	0.00%	Not Applicable	Not Applicable

<sup>1</sup> The IRS Volunteer Program includes the VITA and Tax Counseling for the Elderly Programs.



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Refund Due/ Balance Due	VITA			Tax Counseling for the Elderly (AARP)		
	Dollar Totals	Tax Return Volume	Percentage of Total	Dollar Totals	Tax Return Volume	Percentage of Total
Refund Due	\$824,980,184	581,527	85.94%	\$753,451,912	752,421	71.08%
Balance Due	\$52,674,507	71,456	10.56%	\$193,454,617	217,682	20.56%
Breakeven	\$0	23,668	3.50%	\$0	88,477	8.36%

Filing Status/Dependent Claims	VITA		Tax Counseling for the Elderly (AARP)	
	Tax Return Volume	Percentage of Total	Tax Return Volume	Percentage of Total*
Single	388,707	57.45%	627,881	59.31%
Head of Household	150,707	22.27%	79,697	7.53%
Married Filing Jointly	123,489	18.25%	336,565	31.79%
Widow(er) With Dependent Child	360	0.05%	451	0.04%
Married Filing Separately	13,388	1.98%	13,986	1.32%
Tax Return Prepared With One or More Dependent Exemptions, Including Parents	222,785	32.92%	142,061	13.42%
Tax Return Prepared With No Dependent Exemptions	453,866	67.08%	916,519	86.58%

\* = Percentages for Filing Status do not total to 100 percent due to rounding.



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Credits Claimed	VITA		Tax Counseling for the Elderly (AARP)	
	Tax Return Volume	Dollar Totals	Tax Return Volume	Dollar Totals
Earned Income Tax*	242,090	\$341,777,976	158,677	\$165,663,303
Additional Child Tax*	89,007	\$78,589,134	42,036	\$38,576,263
Child Tax*	82,850	\$71,342,687	54,652	\$56,533,557
Retirement Savings Contribution*	39,220	\$6,105,289	43,114	\$7,923,802
Education	32,025	\$19,520,826	21,955	\$13,584,644
Child and Dependent Care*	18,039	\$8,426,862	9,437	\$4,151,649
Other (Adoption, Gas, and Health Coverage Tax)	198	\$288,503	462	\$586,397

\* = This credit was included in our test scenarios.

Income	VITA		Tax Counseling for the Elderly (AARP)	
	Tax Return Volume	Dollar Totals	Tax Return Volume	Dollar Totals
Average Income	Not Applicable	\$17,872	Not Applicable	\$23,469
Other Income	44,359	\$85,876,228	70,455	\$156,500,615

Source: IRS management information system containing all Tax Year 2005 tax return data.



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**Appendix V**

*List of Cities and States Visited  
to Have Tax Returns Prepared*

- Boston, Massachusetts
- Chicago, Illinois
- Cincinnati, Ohio
- Miami, Florida
- Minneapolis, Minnesota
- New York, New York
- Philadelphia, Pennsylvania
- Phoenix, Arizona
- San Antonio, Texas
- San Francisco, California
- Seattle, Washington
- Tulsa, Oklahoma
- Wilmington, North Carolina



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**Appendix VI**

*Results of Tax Returns Incorrectly Prepared at Volunteer Program<sup>1</sup> Sites*

Volunteer Sites Visited	Type of Site	Volunteer Site Refund or Balance Due	Correct Refund or Balance Due	Amount of Understated Refund	Amount of Overstated Refund
Boston, Massachusetts	VITA	\$5,640	\$31		\$5,609
Chicago, Illinois	VITA	\$5,640	\$31		\$5,609
Chicago, Illinois	AARP	\$2,233	\$2,327	-\$94	
Cincinnati, Ohio	VITA	\$2,005	\$2,327	-\$322	
Miami, Florida	VITA	\$1,926	\$2,327	-\$401	
Miami, Florida	AARP	\$1,104	\$31		\$1,073
Minneapolis, Minnesota	VITA	\$2,017	\$2,327	-\$310	
Minneapolis, Minnesota	VITA	\$2,005	\$2,327	-\$322	
Minneapolis, Minnesota	AARP	\$2,233	\$2,327	-\$94	
New York, New York	VITA	\$1,054	\$31		\$1,023
New York, New York	VITA	\$2,342	\$2,327		\$15
Philadelphia, Pennsylvania	VITA	-\$412	\$31	-\$443	
Philadelphia, Pennsylvania	AARP	\$1,104	\$31		\$1,073
San Antonio, Texas	VITA	\$2,020	\$2,327	-\$307	
San Antonio, Texas	VITA	\$2,233	\$2,327	-\$94	
San Antonio, Texas	AARP	\$1,911	\$2,327	-\$416	
San Francisco, California	VITA	\$1,104	\$31		\$1,073
<b>Totals:</b>				<b>-\$2,803</b>	<b>\$15,475</b>

Source: Anonymous visits performed by our auditors.

<sup>1</sup> The IRS Volunteer Program includes the VITA and Tax Counseling for the Elderly Programs.



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**Appendix VII**

*Accuracy of Eligibility Determinations*

Eligibility Assessment				
		Scenario # 1	Scenario # 2	
		10 of 19 (53 percent) Tax Returns Prepared Incorrectly	7 of 20 (35 percent) Tax Returns Prepared Incorrectly	
Tax Law Topic	Number of Tax Returns on Which Tax Eligibility Determination Is Incorrect	Percentage Incorrect	Number of Tax Returns on Which Tax Eligibility Determination Is Incorrect	Percentage Incorrect
Child Tax Credit	10	53%	0	0%
Child and Dependent Care Credit	6	32%	Not Included	Not Applicable
Dependency Exemption	0	0%	7	35%
Earned Income Tax Credit	4	21%	2	10%
Filing Status	0	0%	5	25%
Income	4	21%	5	25%
Retirement Savings Contribution Credit	6	32%	Not Included	Not Applicable
Additional Child Tax Credit	10	53%	6	30%
Federal Telephone Excise Tax	1	5%	7	35%
		<b>Taxpayer Key Facts:</b> <input type="checkbox"/> Lived with his or her 8-year-old child. <input type="checkbox"/> Contributed to a 401(k) plan. <input type="checkbox"/> Received a statement of Interest Income (Form 1099-INT). <input type="checkbox"/> Had dependent care expenses.	<b>Taxpayer Key Facts:</b> <input type="checkbox"/> Single. <input type="checkbox"/> Two children. <input type="checkbox"/> Children live with the other parent during the school year.	

Source: Tax returns prepared for our auditors by Volunteer Program volunteers during the 2007 Filing Season.<sup>1</sup>

<sup>1</sup> The IRS Volunteer Program includes the VITA and Tax Counseling for the Elderly Programs. The filing season is the period from January through mid-April when most individual income tax returns are filed.



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**Appendix VIII**

*Treasury Inspector General for Tax Administration  
Audit Reports on the Volunteer Income Tax  
Assistance Program*

*Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites (Reference Number 2004-40-154, dated August 2004).*

*Significant Improvements Have Been Made in the Oversight of the Volunteer Income Tax Assistance Program, but Continued Effort Is Needed to Ensure the Accuracy of Services Provided (Reference Number 2006-40-004, dated November 2005).*

*Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program (Reference Number 2006-40-125, dated August 31, 2006).*



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**Appendix IX**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

RECEIVED  
JUL 20 2007

July 20, 2007

MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard J. Morgante *Richard J. Morgante*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Accuracy of Tax Returns Prepared at  
Volunteer Sites Is Improving, but There Are Still Many  
Inaccuracies Because Procedures Are Often Not Followed  
(Audit # 200740019)

I reviewed your subject draft audit report and agree in part with your recommendations. I appreciate your acknowledgement that the accuracy of tax returns prepared at volunteer sites is improving, and that the Volunteer Program continues to play a significant role in achieving the IRS' goal of improving taxpayer service and facilitating participation in the tax system.

The IRS Stakeholder Partnerships, Education, and Communication (SPEC) office, which is responsible for overseeing the Volunteer Program, remains committed to providing top quality service to all taxpayers, especially those with low to moderate income, the elderly, the disabled, and those with limited-English-proficiency. The highly committed partners and volunteers, who invest valuable resources, time, and expertise in serving their communities and specifically this population, are equally dedicated to the success of the SPEC Volunteer Program. This combined commitment has resulted in increased accuracy in return preparation and a phenomenal increase in the numbers of taxpayers served.

I am pleased your report acknowledges improvements in the oversight of the Volunteer Program. Accuracy rates have improved with SPEC's implementation of an aggressive Volunteer Return Preparation Program-Quality Improvement Process (VRPP-QIP). Enhancements to the Volunteer Program for the 2007 filing season, including additional emphasis on the nine Minimum Quality Site Requirements (MQSR), were designed to ensure consistent operation of Volunteer Program sites and to provide taxpayers with the confidence that volunteers are delivering accurate tax return preparation and quality service. If a site is identified as non-compliant with the MQSR, the primary goal is to



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*Accuracy of Volunteer Tax Returns Is Improving, but Procedures  
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work with the site to assist them in becoming compliant as soon as possible. This includes discussions, counseling, and/or mentoring assistance within a reasonable period.

While SPEC continues to make tremendous progress, I realize there are still opportunities for improvement. For example, your report states not all volunteers follow the established procedures which lead to accurate return preparation. We agree SPEC must focus oversight on holding all volunteers accountable in following the required procedures to ensure the continued success of the Volunteer Program. During shopping visits when sites or individual volunteers were identified as being non-compliant, the local territory office instituted corrective actions and executed follow-up visits to ensure compliance. In both TIGTA and SPEC shopping results as indicated, not all volunteer sites followed all nine MQSR. It should also be noted however, that based on the shopping reviews, most sites were in compliance with the majority of the MQSR. The SPEC office will continue to work with partner organizations in implementing the quality program and identifying improvement opportunities.

We have efforts underway for Fiscal Year (FY) 2008 that should drive further improvements to the VRPP-QIP. Quality consultants will be added to review and validate the quality process to ensure SPEC and its partners continue to meet and exceed stated goals. The SPEC office will increase its shopping visits to provide a more significant pool of data to assess the Volunteer Program. The SPEC office, in close consultation with partners, will also improve its volunteer training to fully integrate all elements of the quality initiatives. A national template for site coordinator training will be developed and rolled out in the fall of 2007.

Although your report acknowledges appropriate steps were taken to protect taxpayer information at volunteer sites, I disagree with your finding that the two computers without encryption software beyond that provided by the tax preparation software put taxpayer information at risk. It is important to point out that the partners attempted to load encryption software; however, the computers used could not accommodate the software. The partners subsequently took additional steps to reduce the risk by removing all tax return data from the computer daily at one site and reinstalling it. The second site stored the computer in a locked storage cabinet with limited access when not in use. We will continue to take actions to protect taxpayer information, such as using passwords to protect computers, limiting access, and removing data when not in use.

Finally, while I generally agree with your recommendations, I do not agree with them in their entirety. With respect to recommendation 1, rather than require all Volunteer Program sites to use the IRS-developed Form 13614, we will continue to require the use of an Intake and Interview Process, which includes an intake sheet, such as Form 13614 or a partner developed equivalent. As your report states, SPEC has partner



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organizations that are prohibited from using the IRS-developed Form 13614 on advice from their Office of General Counsel. The IRS-approved partner developed intake and interview forms will include at a minimum all of the questions or similar questions to those on Form 13614. With respect to recommendation 4, we do not agree with your recommendation since we believe the use of taxpayer data and notification associated with it are sufficiently addressed in the requirements outlined in Publication 4299, Privacy and Confidentiality-A Public Trust.

Attached are our specific comments to your recommendations. If you have questions, please call me at (404) 338-7060, or members of your staff may contact Ellen M. Cimaglia, Director, SPEC, at (404) 338-7104.

Attachment



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Attachment

**RECOMMENDATION 1**

The Commissioner, Wage and Investment Division, should require all Volunteer Program sites to use the IRS-developed Form 13614, with the option of the site including additional locally developed information.

**CORRECTIVE ACTIONS**

We do not agree with this recommendation. For two years, SPEC has required the use of an Intake and Interview sheet in conjunction with the volunteer's interview with the taxpayer.

We will continue to require the use of an intake and interview process that includes an intake sheet, such as Form 13614 or partner developed equivalent, to prompt the return preparer to ask questions necessary for accurate return preparation.

The SPEC Quality Staff will revise Form 13614 for the 2008 filing season to include an increased emphasis on:

- Conducting a comprehensive interview between the volunteer preparer and the taxpayer.
- Using the available resource materials in applying tax law to specific taxpayer situations.
- Securing all source or supporting documentation and related information from the taxpayer during intake/interview.

In addition, the Quality Assurance Staff will create an electronic repository where partner developed forms, such as the Intake and Interview sheet, will be housed. This will allow the staff access to these forms and ensure compliance (of partners and territories) with the guidelines and policies provided for partner developed forms.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTIONS MONITORING PLAN**

N/A

**RECOMMENDATION 2**

The Commissioner, Wage and Investment Division, should provide training to site coordinators, focusing on the specific responsibilities for ensuring volunteer compliance with the MQSR.



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**CORRECTIVE ACTIONS**

We agree with this recommendation. Currently many of SPEC's local territory offices provide training to their site coordinators, but the type of training, content of the training, etc. varies. For FY 2008, SPEC will focus on developing a consistent plan and process for volunteer site coordinators' training.

The SPEC office will review the locally developed training curriculum for site coordinators currently used by many partners and IRS tax specialists. The SPEC office plans to develop a training curriculum to be used consistently nationwide. The SPEC office will also enhance the Publication 1084, Volunteer Site Coordinators Guide, to highlight key elements of site coordinator responsibilities and the important role they play in ensuring the site adherence to the quality processes, including compliance with the MQSR. Beginning in October 2007, local territory offices will be responsible for site coordinator training oversight.

**IMPLEMENTATION DATE**

February 15, 2008

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division

**CORRECTIVE ACTIONS MONITORING PLAN**

The SPEC office will monitor its training curriculum and strengthen any weaknesses.

**RECOMMENDATION 3**

The Commissioner, Wage and Investment Division, should strengthen the policy on actions to be taken when a site is not in compliance with the MQSR, including specific actions that will be taken to ensure the site remains compliant.

**CORRECTIVE ACTIONS**

We agree with this recommendation. In FY 2007, SPEC implemented a policy to address the consequences for non-compliant sites. For FY 2008, the Quality Assurance Staff will review, revise, and strengthen this policy, as necessary. During the October 2007 Filing Season Readiness Quality Training for all SPEC employees, instructors will emphasize the policy and corrective actions to ensure the sites remain compliant.

**IMPLEMENTATION DATE**

November 15, 2007

**RESPONSIBLE OFFICIAL**

Director, SPEC, Wage and Investment Division



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**CORRECTIVE ACTIONS MONITORING PLAN**

The SPEC office will review and strengthen any weaknesses in its existing policy addressing the actions and authority of a local territory office when sites are not compliant with the requirements outlined in the quality process.

**RECOMMENDATION 4**

The Commissioner, Wage and Investment Division, should ensure taxpayers receive required notification if prior year tax information is maintained, even if the information is in electronic format, and ensure encryption software is loaded on all computers (including partner-provided computers) on which prior year *e-filed* tax information is retained.

**CORRECTIVE ACTIONS**

We do not agree with this recommendation. Use of taxpayer data and notification associated with it are outlined in Publication 4299, Privacy and Confidentiality-A Public Trust. Publication 4299 requires partners to provide written notice to taxpayers if the partner plans to retain tax return information. This notice must contain the information to be retained, how long it will be retained, how the information will be used and that it will be protected. The taxpayer has the right to refuse to have their information retained by the partner/site.

The SPEC office will continue to stress that partners obtain permission from the taxpayer for any data they retain beyond December 31, and that they continue to afford their highest level of protection to all the data they process, whether electronic or paper.

For FY 2008, the software provided for use in the volunteer return preparation program to electronically prepare and transmit returns will encrypt all current and prior year data stored in the tax preparation program.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTIONS MONITORING PLAN**

N/A