



*Ensuring the Quality Assurance Processes
Are Consistently Followed Remains a
Significant Challenge for the
Volunteer Program*

September 15, 2009

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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.

Redaction Legend:

1 = Tax Return/Return Information



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 15, 2009

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

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

SUBJECT: Final Audit Report – Ensuring the Quality Assurance Processes Are Consistently Followed Remains a Significant Challenge for the Volunteer Program (Audit # 200940002)

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 Program¹ sites. This audit is a followup to prior Treasury Inspector General for Tax Administration reviews and is part of our Fiscal Year 2009 Annual Audit Plan.²

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. It provides no-cost Federal tax return preparation and electronic filing directed toward underserved segments of individual taxpayers, including low-income to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. However, the quality assurance process needs some improvements and is still not consistently followed. Incorrectly prepared tax returns can increase the risk of taxpayers receiving erroneous tax refunds by not receiving credits to which they are entitled or receiving additional credits for which they do not qualify.

¹ 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 AARP (formerly the American Association of Retired Persons).

² See Appendix IV for a list of these prior reports.



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Synopsis

The accuracy rates for tax returns prepared at Volunteer Program sites decreased for the first time in five filing seasons.³ Of the 49 tax returns prepared for our auditors by Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites in the 2009 Filing Season, 29 (59 percent) were prepared correctly and 20 (41 percent) were prepared incorrectly. If 17 of the incorrectly prepared tax returns had been filed, taxpayers would not have received \$4,138 in tax refunds to which they were entitled. Alternatively, if the remaining 3 incorrectly prepared tax returns had been filed, the IRS would have incorrectly refunded \$4,575.

Accuracy rates of tax returns prepared for our auditors decreased from 69 percent in the 2008 Filing Season to 59 percent in the 2009 Filing Season.

Since the 2004 Filing Season, we have reported that volunteers do not always follow required procedures designed to assist in the accurate preparation of tax returns. During the 2009 Filing Season, some volunteers did not consistently use the required intake and interview process or perform a quality review to ensure that an accurate tax return was prepared. In addition, the IRS-developed intake sheet was not effective to ensure that taxpayers received the additional property tax deduction when appropriate.

The IRS is continuing to build on the quality review process, which has evolved into a four-tier quality review process that includes 1) a 100 Percent Quality Review at the volunteer sites of every tax return before it is filed, 2) anonymous visits to volunteer sites by IRS employees to have mock tax returns completed, 3) Quality Statistical Sample (QSS) Reviews,⁴ and 4) Post Reviews of 100 percent of QSS Reviews.

Nevertheless, improvements are needed to better monitor Volunteer Program effectiveness. Limited testing at seven selected volunteer sites showed that IRS QSS reviewers did not consistently follow required procedures. Procedures were not consistent from site to site and did not always conform to applicable guidelines in place to ensure the effectiveness of the tax return review process.

In addition, a random sample of 43 of the 679 Post Reviews showed that 6 (14 percent) QSS Review files lacked sufficient taxpayer information to support the reviewers' conclusions. For example, missing information included documentation needed to validate the accuracy of the standard deduction, Rebate Recovery Credit, Charitable Contributions, and income amounts claimed. This could cause the IRS to report incorrect accuracy rates.

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

⁴ Starting with the 2009 Filing Season, the IRS began relying on a specially trained cadre of 18 tax specialists to visit a statistically valid sample of Volunteer Program sites to review a sample of tax returns for accuracy.



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Recommendations

We recommended that the Commissioner, Wage and Investment Division, as part of the ongoing efforts to ensure that all tax returns are accurate, 1) begin trending accuracy rates by site and tax topic to identify patterns and concerns in which to focus education, training, and accountability; 2) ensure that all new tax law topics and questions pertaining to filing status are incorporated into the IRS intake sheet as well as augment the process for IRS approval of locally developed intake sheets to ensure completeness and consistency of information gathered from taxpayers during the tax return preparation process; 3) ensure that the QSS Reviews completed at the volunteer sites are selected by the Stakeholder Partnership, Education, and Communications function QSS reviewer, the samples are random, and complete documentation is obtained; and 4) require that QSS Review training be revised based on the results of the 2009 Filing Season to better ensure that tax returns are randomly selected and that both QSS and Post Reviews are consistently supported by sufficient documentation.

Response

The IRS agreed with three of four recommendations and partially agreed with one recommendation.

- 1) The IRS partially agreed with this recommendation. The IRS does not agree to trend accuracy rates by site, stating it already captures an accuracy rate by tax topic that allows it to identify patterns and concerns in which to focus education, training, and accountability. Tracking accuracy rate by site would require it to increase the number of reviews to be conducted at each site and resources are not available to accomplish this.
- 2) The IRS agreed with this recommendation, stating it would incorporate new tax law topics and questions pertaining to filing status into its intake sheet.
- 3) The IRS agreed with this recommendation, stating that the current process requires that the QSS reviewers randomly select the first available tax return once it has been quality reviewed. The IRS will reemphasize this process and the need to obtain complete documentation in Fiscal Year 2010 QSS Reviewer Training.
- 4) The IRS agreed with this recommendation, stating that it will ensure QSS Review training is revised based on the results of the 2009 Filing Season. It will also reemphasize this process and the need to obtain complete documentation in Fiscal Year 2010 QSS Reviewer Training.

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



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Office of Audit Comment

In its response, the IRS stated that it reported a 78.5 percent accuracy rate using a statistical sample. We agree a statistically valid sample of 679 tax returns is more reliable than a judgmental sample of 49 tax returns. However, as we reported, improvements are needed to the quality assurance process used to monitor program effectiveness before accuracy rate results can be considered reliable.

In addition, the IRS stated in its response that the decrease in the accuracy rate from 69 percent in the 2008 Filing Season to 59 percent in the 2009 Filing Season was based on 9 of 20 incorrectly prepared tax returns that used a scenario that is not a traditional issue for the volunteers. Also, it is representative of less than 1 percent of the customer base. However, the scenario included a new tax law topic that was included in the volunteers' training.

Concerning Recommendation 1, the IRS stated that resources would not allow it to track accuracy rates by volunteer site. We do not believe additional reviews would be required. The IRS should capture the accuracy rate by site for the reviews required to achieve a statistical sample.

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 (Returns Processing and Account Services), at (202) 622-5916.



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Abbreviations

<i>e-filed, e-filing</i>	Electronic Filing
IRS	Internal Revenue Service
QSS	Quality Statistical Sample
SPEC	Stakeholder Partnership, Education, and Communications
TCE	Tax Counseling for the Elderly
VITA	Volunteer Income Tax Assistance



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Background

The Volunteer Program plays an increasingly important role in achievement of the Internal Revenue Service's (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-income to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. It includes sites operated in partnership with the military and with various community-based organizations.¹ The Volunteer Program is comprised of the Volunteer Income Tax Assistance (VITA) Program, the Tax Counseling for the Elderly (TCE) Program, and the VITA Grant Program.

The VITA Program was originated in 1969 due to enactment of the Tax Reform Act of 1969² and an increased emphasis on taxpayer education programs. The IRS has placed continual emphasis 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 TCE Program began with the Revenue Act of 1978³ that 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 and older. The IRS receives the funds as a line item in the budget appropriation. The total funds are distributed to the sponsors⁴ for their expenses.

The 2009 Filing Season⁵ was the first filing season that the IRS granted funds for the VITA Grant Program. Under the VITA Grant Program, 111 grantees were awarded \$8 million in matching grants to extend services to underserved populations in hard-to-reach areas, both urban

Volunteers play an increasingly important role in helping the IRS achieve its goal of improving taxpayer service and facilitating participation in the tax system.



¹ Some community-based Volunteer Program sites are located in buildings occupied by one or more IRS offices.

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

³ Pub. L. No. 95-600, 92 Stat. 2810.

⁴ A sponsor would be an entity similar to the AARP (formerly the American Association of Retired Persons).

⁵ The filing season is the period from January through mid-April when most individual income tax returns are filed.



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and nonurban. The grants are to be used to increase the capacity to file tax returns electronically and enhance training of volunteers at VITA sites.

For the 2008 Filing Season, over 78,000 volunteers staffed a total of 11,840 Volunteer Program sites. Volunteers prepared approximately 1.58 million individual income tax returns at VITA sites⁶ and over 1.89 million at TCE sites. Figure 1 provides key production data for the 2006 through 2008 Filing Seasons.

**Figure 1: Key VITA/TCE Site Production Data for the
2006 - 2008 Filing Seasons**

	2006 Filing Season	2007 Filing Season	Percent Change	2008 Filing Season	Percent Change
VITA					
Paper	145,991	146,383	0.27%	249,368	70.35%
E-Filed	967,800	1,077,843	11.37%	1,339,023	24.23%
Total VITA returns	1,113,791	1,224,226	9.92%	1,588,391	29.75%
Total VITA Sites	4,540	4,474	-1.45%	4,991	11.56%
Total VITA Volunteers	35,664	43,415	21.73%	46,610	7.36%
TCE					
Paper	244,129	253,632	3.89%	327,664	29.19%
E-Filed	905,682	1,144,664	26.39%	1,563,879	36.62%
Total TCE returns	1,149,811	1,398,296	21.61%	1,891,543	35.27%
Number of Sites	7,822	7,448	-4.78%	6,849	-8.04%
Number of Volunteers	33,121	33,204	0.25%	32,233	-2.92%
TOTALS					
Total Number of Volunteers	68,785	76,619	11.39%	78,843	2.90%
Total VITA and TCE Sites	12,362	11,922	-3.56%	11,840	-0.69%
Total VITA and TCE Returns	2,263,602	2,622,522	15.86%	3,479,934	32.69%
Total Returns	2,263,602	2,622,522	15.86%	3,479,934	32.69%

Source: IRS management information system containing 2006 through 2008 Filing Season information.

During the 2008 Filing Season, taxpayer demand for volunteer tax services increased almost 33 percent over the approximately 2.6 million volunteer-prepared tax returns filed during the 2007 Filing Season. The key factor of this increased activity was the passage of the Economic Stimulus Act of 2008.⁷ The IRS reached out to taxpayers with special emphasis on Social Security and Veterans Administration benefits recipients who had no tax filing requirements.

⁶ Throughout the remainder of this report, all references to the VITA Program include the VITA Grant Program.

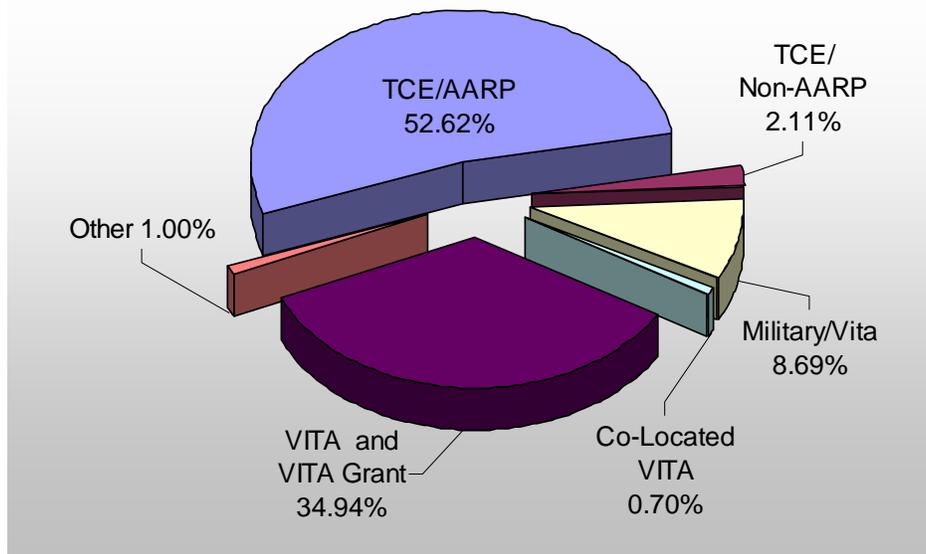
⁷ Pub. L. No. 110-185, 122 Stat. 613.



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This audit included an assessment of tax returns prepared at community-based VITA sites and TCE/AARP-sponsored⁸ sites. Figure 2 provides a breakdown of the Volunteer Program and the percentage of tax returns prepared during the 2008 Filing Season.

Figure 2: Percent of Tax Returns Prepared at the Volunteer Program Sites During the 2008 Filing Season



Source: Our analysis of data retrieved from the IRS management information system containing Tax Year 2007 filing information. Due to rounding, percentages will not add to 100 percent. Other = At the time of our data analysis, some data had invalid site codes that were categorized as "Other."

The IRS Stakeholder Partnership, Education, and Communications (SPEC) function is responsible for providing oversight for 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 concept of operations includes looking for opportunities to assist third parties to help taxpayers understand and meet their tax obligations by promoting collaboration among tax practitioners, commercial preparers, and community-based partners to support the volunteer return preparation program.

⁸ Throughout the remainder of this report, the abbreviation "TCE" is used in reference to TCE sites sponsored by the AARP.



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

We designed four scenarios for auditors to use as they posed as taxpayers having tax returns prepared by volunteers. The scenarios were developed to use characteristics of taxpayers who visit Volunteer Program sites to have a tax return prepared and tax law topics that assessed the volunteers' use of the tools the SPEC function created to ensure that accurate tax returns are prepared.

- Two scenarios included tax topics related to five of the six credits taxpayers most often claimed on the Tax Year 2007 returns prepared by community-based VITA and TCE sites. The dollar amounts of these 5 credits represented about 49 percent (approximately \$981 million) of the approximately \$2 billion in refunds shown on the tax returns for these taxpayers. Taxpayers whose tax returns included 1 or more of the 5 credits in our scenarios accounted for 677,413 (23 percent) of the 2,920,754 Tax Year 2007 tax returns prepared. Scenarios 1 and 2 have been used, with minimal revisions, since our first audit of the Volunteer Program in the 2004 Filing Season.⁹
- Two scenarios were added for the 2009 Filing Season review to assess volunteers' handling of newly enacted tax laws and, at the request of the IRS, to assess the accuracy of volunteer-prepared tax returns that do not include dependent issues.

Scenario 1 – The taxpayer was single, had never been married, and lived with his or her sister. The taxpayer had one child, age 7, who 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 child lived with the other parent during the school year. Wages reported on the 2008 Wage and Tax Statement (Form W-2) totaled \$16,435. The taxpayer received a 2008 Interest Income (Form 1099-INT) totaling \$26.35. The taxpayer attended college part time, and the cost was paid by the taxpayer's sister.

An accurately prepared tax return would result in the taxpayer receiving a refund of \$598. The tax return preparer would have correctly determined that the taxpayer's filing status was Single. Because the taxpayer did not provide more than one-half of the support for the child, he or she could not claim the child as a dependent 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 child did not live with the taxpayer for more than one-half of the year. The taxpayer would qualify for the Recovery Rebate Credit of \$600 because no economic stimulus payment was received in 2008. The taxpayer did not file a Tax Year 2007 return since there was no income to report.

⁹ See Appendix IV for a list of our prior reports.



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Scenario 2 – 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 Calendar Year 2008. Wages reported on the 2008 Form W-2 totaled \$28,732. The taxpayer was paid bi-weekly and contributed to a 401(k) retirement plan. The taxpayer received a 2008 Form 1099-INT totaling \$42.13, received \$400 a month for child support, had dependent care expenses totaling \$1,352, and contributed \$1,253 to a 401(k) retirement plan. The taxpayer received \$900, the maximum amount of economic stimulus payment.

An accurately prepared tax return would result in the taxpayer receiving a refund of \$2,338. The tax return preparer would have correctly determined that the taxpayer's filing status was Head of Household and the dependency exemption could be claimed. In addition, the taxpayer qualified for an Earned Income Tax Credit of \$834, a Child Tax Credit of \$990 and an Additional Child Tax Credit of \$10 in a refundable credit, a Child and Dependent Care Credit of \$379, and a Retirement Savings Contributions Credit of \$125.

Scenario 3 – The taxpayer was widowed, lived alone, retired 2 years ago, and began receiving an annual pension totaling \$4,092 in Calendar Year 2008. The taxpayer began receiving Social Security Retirement payments during Calendar Year 2008, the month after reaching age 62, and received a total of \$3,364 for Calendar Year 2008. In addition, the taxpayer received a 2008 Form 1099-INT totaling \$236.08. The taxpayer did not receive an economic stimulus payment because his or her income did not qualify. Due to the IRS' request for an assessment specifically of the TCE Program's preparation of tax returns involving retirement income, auditors limited their use of this scenario to TCE sites.

A correctly prepared tax return would result in the taxpayer receiving a refund of \$300. The preparer would have correctly determined that the taxpayer's filing status was Single. The preparer would have realized this taxpayer had no filing requirement due to the level of income. However, the taxpayer would be entitled to receive the Recovery Rebate Credit and would need to file a tax return for that purpose.

Scenario 4 – The taxpayer was single, no children, never married, and owned and lived in a home without a mortgage. The home was inherited from a parent. The taxpayer worked part time in the evenings as a convenience store clerk. Wages reported on the 2008 Form W-2 totaled \$10,756, with \$608.84 Federal income tax withheld, \$155.96 Medicare tax, and \$164.18 State income tax withheld. The taxpayer also received \$666.87 in Social Security Retirement income. In addition, the taxpayer received a 2008 Form 1099-INT totaling \$12.02 and paid \$984 in county real estate property taxes based on an assessment notice received in August 2008. The taxpayer received a \$300 economic stimulus payment.

A correctly prepared tax return would result in the taxpayer receiving a refund of \$639. The preparer would have correctly determined that the taxpayer's filing status was Single. The taxpayer would receive an Earned Income Tax Credit in the amount of \$161 and receive the



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benefit of a \$500 increase in the standard deduction due to real estate taxes paid. No Recovery Rebate Credit would be due.

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 2008 through May 2009. In addition, from February through April 2009, Treasury Inspector General for Tax Administration auditors performed 51 anonymous visits (called shopping) and had 49 tax returns prepared at 49 judgmentally selected Volunteer Program sites located in 15 States. Appendix V provides a list of the 15 States and the specific cities where the sites were located. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



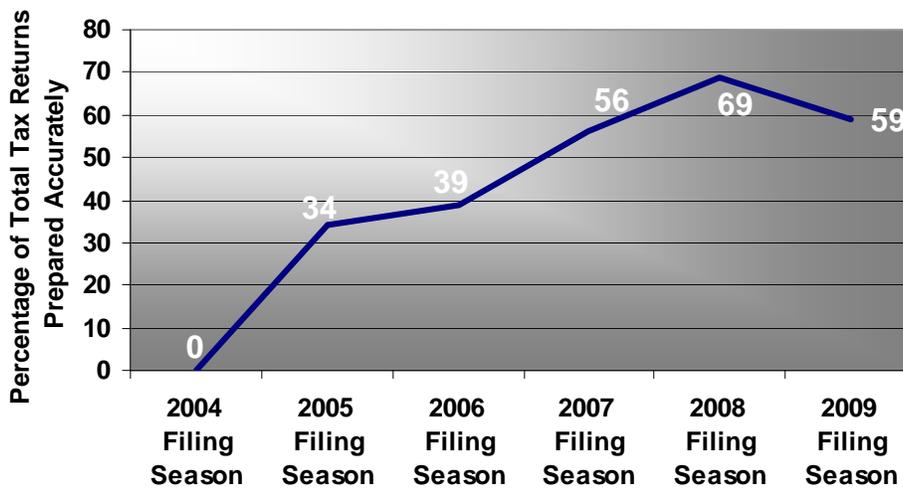
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Results of Review

Lack of Accountability for Following Quality Assurance Processes Remains a Significant Barrier to Ensuring Accuracy

The accuracy rates for tax returns prepared at Volunteer Program sites decreased for the first time in five filing seasons. Figure 3 shows that accuracy rates of tax returns prepared for our auditors for the 2004 through 2009 Filing Seasons.

Figure 3: Overall Tax Return Accuracy Rates for the 2004 - 2009 Filing Seasons



Source: Tax returns prepared for our auditors by volunteers for the 2004 through 2009 Filing Seasons.

Since the 2004 Filing Season, we have reported that volunteers do not always follow required procedures designed to assist in the accurate preparation of tax returns. During the 2009 Filing Season, some volunteers did not consistently use the required intake and interview process, including completion of the IRS Intake and Interview Sheet (Form 13614) or another IRS-approved intake sheet, or perform a quality review to ensure that an accurate tax return was prepared.

Of the 49 tax returns we had prepared for the 2009 Filing Season, 29 (59 percent) were prepared accurately and 20 (41 percent) were prepared incorrectly. Figure 4 shows the overall accuracy rates by scenario.



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Figure 4: Overall Tax Return Accuracy Rates for the 2009 Filing Season

Tax Scenario Used	Number of Tax Returns Prepared Using the Scenario	Accuracy Rate
Scenario 1	13	69%
Scenario 2	13	62%
Accuracy Rate for Scenarios 1 and 2	26	65%
Scenario 3	11	82%
Accuracy Rate for Scenarios 1-3	37	70%
Scenario 4	12	25%
Total Accuracy	49	59%

Source: Tax returns prepared for our auditors by volunteers for the 2009 Filing Season.

Scenarios 1 and 2 have been used, with some slight variations, to test tax return accuracy since the 2004 Filing Season, when the Treasury Inspector General for Tax Administration first began testing the accuracy. Scenario 3 added the tax topic of retirement income. Scenario 4 added the tax topic of real estate taxes.

Specific issues causing errors included:

- In 7 (78 percent) of the 9 instances in which the auditors presented Scenarios 1 and 2 and the return was incorrectly prepared, the preparer overlooked what was provided by taxpayers on the intake sheet.¹⁰ Errors on tax returns included volunteers incorrectly determining the amounts of the Child Tax Credit, the Child and Dependent Care Credit, and/or the Retirement Savers Contributions Credit. Also, for seven of the incorrect tax returns, there was either no required quality review performed or, for example, the quality reviewer overlooked information on the intake sheet when validating information on the tax return.
- In 11 (100 percent) of the 11 instances in which the auditors presented Scenario 3—the retirement income scenario—volunteers correctly determined the taxability of the taxpayer’s income. However, at one site, no tax return was prepared because the volunteer did not identify that a tax return needed to be filed to claim a \$300 Recovery Rebate Credit. There was no quality review of the volunteer’s decision not to prepare a return. At another site, a tax return was prepared but the Recovery Rebate Credit was not claimed.

¹⁰ The intake sheets are developed and provided by the IRS or by the volunteer organizations.



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- In 9 (75 percent) of the 12 instances in which the auditors presented Scenario 4, volunteers did not include real estate taxes as an additional standard deduction. This was the only error for these tax returns. For Tax Year 2008, homeowners had the option to claim an additional standard deduction for property tax if they do not itemize. The IRS-developed intake sheet was not effective to ensure that entitled taxpayers received the additional deduction. The IRS intake sheet does not ask whether the taxpayer paid property taxes. The SPEC function alerted volunteers on February 15, 2009, to remind them of this new law.

SPEC function management stated that late legislation on the property tax deduction prevented them from updating the intake sheet with this issue. The IRS intake sheets are printed in mid-summer in order to have them available for September training sessions.

The SPEC function also conducted 65 shopping visits during the 2009 Filing Season as part of its quality review program and raised similar concerns regarding volunteer adherence to quality requirements

During the 2009 Filing Season, the IRS performed 65 shopping reviews that showed 44 (68 percent) tax returns were prepared accurately, compared to a 75 percent accuracy rate for the 85 tax returns volunteers prepared for SPEC function shoppers during the 2008 Filing Season. Observations from the 2009 Filing Season shopping visits showed that:

- 25 percent of the sites did not perform the required quality review of the tax returns.
- 68 percent of the sites did not effectively use the required intake and interview sheet during tax return preparation.

Significant challenges exist to ensure that volunteers consistently adhere to quality assurance processes

Since Fiscal Year 2004, the SPEC function and its volunteer organization/partners have worked to educate and train volunteers about the benefits of following quality assurance processes during the preparation of every tax return. For every tax return prepared, volunteers are required to ensure that the taxpayer completes an IRS-approved intake sheet, that there is an interview process to confirm a complete and accurate understanding of the taxpayer information, and that each tax return is subjected to a 100 percent Quality Review.

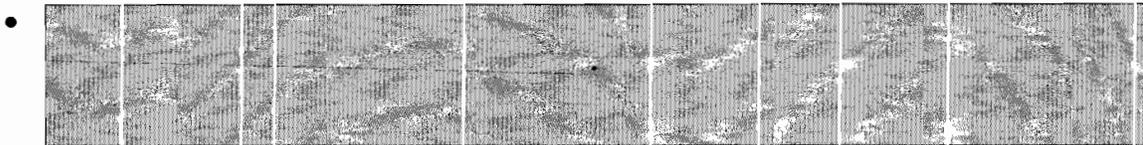


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A quality review process at each site must be used to confirm that the tax law was correctly applied and that the tax return is free from error and has been prepared correctly based on all available information. A quality review process at each site must contain the following critical components for an effective and thorough quality review of the tax return:

1. The taxpayer should participate in the quality review process.
2. The quality reviewer is required to use a standardized Quality Review Sheet.
3. The quality reviewer is required to use the available supporting documents to confirm identity, income, expenses, and credits on the return.
4. If applicable, the quality reviewer may have to refer to *Volunteer Resource Guide* (Publication 4012) and/or *Your Federal Income Tax* (Publication 17).

However, for each of the 20 tax returns prepared incorrectly, 1 or more elements of the requirements were not followed. For example:



- For 5 tax returns (25 percent), there was no quality review performed.
- For 6 tax returns (30 percent) that were quality reviewed, the volunteers did not use a quality review check sheet.
- For 7 tax returns (35 percent) that were quality reviewed, the quality reviewer did not refer to the intake sheet.
- For 14 tax returns (70 percent), the volunteers did not effectively use the intake sheet. The lack of use ranged from not using an intake sheet to using only one side.
- For 19 tax returns (95 percent), the volunteers did not refer to available tax preparation reference guides during preparation of tax returns. The volunteers are not required to refer to the guides, but the guides are available for the volunteers to reference.

To obtain a better understanding of how sites perform over time, auditors attempted to have tax returns prepared at the same 39 sites they visited during the 2007 Filing Season. Of the 39 sites, 27 were still operating during the 2009 Filing Season. Analysis of the tax returns prepared for auditors at these sites showed accuracy decreased from 48 percent in the 2007 Filing Season to 44 percent in the 2009 Filing Season. Of the 15 sites that prepared incorrect tax returns in the 2009 Filing Season, 8 (53 percent) also produced incorrect tax returns in the 2007 Filing Season as well.





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Both SPEC function and Treasury Inspector General for Tax Administration employees believe that many volunteers' desire to complete tax returns more quickly takes priority over the need to follow quality review requirements. Also, some volunteers believe that because they are experienced, they do not always need to follow the quality review processes.

SPEC function guidelines state that if a Volunteer Program site does not comply with a particular aspect of the quality review process, it works with the partner and the site to assist them in becoming compliant as soon as possible. Any remedy offered should provide the assistance and support necessary to bring the site into compliance with the Quality Site Requirements. This might include discussions, counseling, and/or mentoring assistance with the site within a reasonable period. Withdrawing IRS support from a site is the last resort per current IRS guidelines.¹¹

The Government and taxpayers are adversely affected by incorrect tax returns

Incorrectly prepared tax returns can increase the risk of taxpayers not receiving credits they are entitled to or receiving additional credits for which they do not qualify. If 17 of the 20 incorrectly prepared tax returns had been filed, taxpayers would not have received \$4,138 in tax refunds to which they were entitled. Specific credits not received included the Child Tax Credit and Additional Child Tax Credit, Child and Dependent Care Credit, Earned Income Tax Credit, Recovery Rebate Credit, Retirement Savings Contributions Credit, and additional standard deduction amount. Alternatively, if the remaining 3 incorrectly prepared tax returns had been filed, the IRS would have refunded \$4,575 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.¹² This does not take into account the many years of difficulty taxpayers may face once the IRS determines that they claimed, for example, an incorrect amount of Earned Income Tax Credit.

Partner organizations and their volunteers play a significant role in the IRS' tax return preparation program. This presents significant challenges to the IRS. The strengths of the Volunteer Program lie with the partner organizations and their volunteers. Although the IRS has a commitment to holding them accountable for following the direction, guidelines, and required processes that have been put in place, this commitment should be at the forefront to ensure Volunteer Program success.

¹¹ IRS support includes software, computers, printers, financial assistance, grants, and VITA and TCE Program logo references.

¹² Appendix VI presents details of these results.



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Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: As part of the ongoing efforts to ensure that all tax returns are accurate, begin trending accuracy rates by site and tax topic to identify patterns and concerns in which to focus education, training, and accountability.

Management's Response: The IRS agreed in part with this recommendation. An accuracy rate is captured by tax topic, which allows the IRS to identify patterns and concerns in which to focus education, training, and accountability. When tax law or process errors are identified at the sites, Volunteer Quality Alerts or Quality Site Requirement alerts are issued to inform partners of recurring issues. For example, some preparers were overlooking the additional standard deduction for taxpayers who did not have enough to itemize, but could claim their State and local real estate property taxes. As soon as this was known, a Volunteer Quality Alert was issued as a reminder to volunteers.

The IRS did not agree to trend accuracy rates by site. It stated that doing this would increase the number of reviews to be conducted at each site. Resources are not available to accomplish this, particularly considering there are more than 12,000 volunteer sites.

Office of Audit Comment: The IRS stated that resources would not allow it to track accuracy rates by volunteer site. However, we do not believe additional reviews would be required. The IRS should capture the accuracy rate by site for the reviews required to achieve a statistical sample.

Recommendation 2: Ensure that all new tax law topics and questions pertaining to filing status are incorporated into the IRS intake sheet. In addition, the process for IRS approval of locally developed intake sheets should be augmented to better ensure completeness and consistency of information gathered from taxpayers during the tax return preparation process.

Management's Response: The IRS agreed with this recommendation. The IRS will incorporate new tax law topics and questions pertaining to filing status into its intake sheet. The Tax Year 2009 IRS Intake Sheet was revised to include the provisions of the American Recovery and Reinvestment Act.¹³ However, the purpose of the newly designed Intake/Interview and Quality Review Sheet (Form 13614-C) is not to incorporate every question that should be addressed with the taxpayer but rather to trigger the volunteer preparer's conversation with the taxpayer. This requires them to use the decision trees located in Publication 4012, Publication 17, or the interview tools in the software provided.

¹³ Pub. L. No. 111-5, 123 Stat. 115.



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In addition, the IRS agreed to augment the process for approval of locally developed intake sheets. The current process for locally developed intake sheets requires that local Territory management ensure that locally developed forms have the same questions as the Form 13614-C.

Improvements Are Needed to the Quality Assurance Process Used to Monitor Program Effectiveness

Limited testing at seven selected volunteer sites showed that IRS quality reviewers did not consistently follow required procedures. Procedures were not consistent from site to site and were not always consistent with applicable guidelines in place to ensure the effectiveness of the tax return review process. In addition, the post-review quality assurance process did not effectively identify and address errors that affect the credibility of the overall accuracy rate.

The IRS is continuing to build on the quality review process, which has evolved into a four-tier quality review process that includes 1) a 100 Percent Quality Review at the volunteer sites of every tax return before it is filed, 2) anonymous visits to volunteer sites by SPEC function employees to have tax returns completed, 3) Quality Statistical Sample (QSS) Reviews,¹⁴ and 4) Post Reviews of 100 percent of QSS Reviews.

The SPEC function conducted a sample of 679 QSS Reviews during the 2009 Filing Season and determined that 530 (78 percent) of the tax returns were correct. During a QSS Review, cadre members randomly select for review three tax returns that have not yet been signed by the taxpayers. The IRS reviewer uses the Quality Return Review Sheet (Form 6729C) to check the prepared tax return for accuracy with the completed intake and interview sheet, the taxpayer's supporting documentation, and the completed quality review checksheet. QSS reviewer instructions include the following:

1. Enter the site and ask for the site coordinator; explain site and return review process and address any questions or concerns.
2. Ask the site coordinator for next available tax return.
3. Explain return review purpose to the taxpayer and ask the taxpayer for permission to review his/her return and provide taxpayer with *Return Review Preparation – Taxpayer* (Publication 4675).
Note: If the intake/interview sheet is missing, not completed, or unapproved, hold on to completed tax return and secure the completed approved intake/interview sheet from site coordinator. A Statistics of Income Office Review cannot be conducted using an unapproved intake sheet.
4. Conduct the review of the tax return.
5. If no errors are identified, give the tax return to site coordinator for immediate processing.

¹⁴ Starting with the 2009 Filing Season, the IRS began relying on a specially trained cadre of 18 tax specialists to visit a statistically valid sample of Volunteer Program sites to review a sample of tax returns for accuracy.



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6. If there is a difference on the information reported on the return than what is marked on the approved intake sheet, the return preparer or reviewer should make a note on the intake sheet. If they did not, the QSS reviewer must question the discrepancy. The QSS reviewer must ask the preparer/quality reviewer to correct or make a note on the intake sheet. The QSS reviewer will note and comment on what line items on the tax return and intake sheet were inconsistent. The history sheet will also be noted that there was a discrepancy between the two documents.
7. If errors are identified, advise the site coordinator to make the appropriate changes to the tax return and wait for the corrected return to ensure no other credits were identified once the error was corrected.
8. Scan the following on each tax return: completed tax return, corrected tax return (if applicable), consent form, Form 6729C, intake sheet, Quality Review sheet, and all supporting documents.
9. Sanitize and redact all documents.

QSS Reviews are not anonymous and may influence tax preparation sites under review

Unlike when auditors pose as a taxpayer and visit a volunteer tax preparation site to have a tax return prepared, during the QSS Review, volunteers are aware that IRS staff are onsite to review the tax returns they are preparing. Knowing the reviewer is onsite could lead volunteers to be more quality conscious and more apt to adhere to quality processes than they would have been otherwise. Consequently, the QSS Reviewer may not be obtaining a reliable perspective of the tax return preparation operations.

At one of seven sites, the QSS Reviewer determined which cases were in quality review and prior to completion of the site's quality review of the tax return, the reviewer informed the taxpayer and the volunteer that the return was next to be reviewed. In addition, the IRS' results of review, for example, showed that after the first return was reviewed and the IRS had pointed out a lack of the required quality review of the tax return or an incomplete intake sheet, the second and third tax returns reviewed generally were free of the issues raised by the IRS.

This will remain a challenge since the IRS would need significant resources to ensure that the reviewers are anonymous. However, it is only one of four reviews in the four-tier quality review process.

QSS reviewers did not ensure that the selection of tax returns for review was random

The methods followed by QSS reviewers to select tax returns for review at each site were not consistent and generally did not ensure that each tax return was randomly selected. At five of seven sites visited, reviewers did not effectively control the return selection process. At another site visited, there was only one volunteer preparing tax returns, but the reviewer ensured no taxpayers were allowed to leave without being asked to participate in the return review process. One reviewer closely monitored the return preparation process to ensure the integrity of the process.



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Factors identified that could call into question the validity of the results include instances where:

- The QSS reviewer became involved in helping the site with the preparation of a tax return.
- The QSS reviewer reviewed a tax return for accuracy even though both spouses were not present to review and sign the tax return.
- A tax return was excluded from review because it was not electronically prepared (i.e., a paper tax return).
- Taxpayers without filing requirements because of income levels were excluded from the review process.

QSS Reviews were not supported by sufficient taxpayer information and source documents were not consistently used to validate the accuracy of the tax return information

QSS reviewer assessments were not always supported by a complete review of taxpayer information.

- At one of seven sites, the site was using a locally developed intake sheet and the reviewer had not ensured that the IRS had approved the intake sheet.
- At four of seven sites, reviewers accepted incomplete intake sheets. None of the reviewers verified that the taxpayer completed the intake sheet. Shopping visits have shown that volunteers will complete the intake questions and make assumptions rather than ask the taxpayer (e.g., the number of months the child lived with the taxpayer), which is critical in determining the filing status and number of exemptions allowed.

Post reviewers considered tax returns to be correct even though they did not have sufficient information

A random sample of 43 of the 679 Post Reviews showed that 6 (14 percent) QSS Review files lacked sufficient taxpayer information to support the reviewers' conclusions. For example, missing information included documentation needed to validate the accuracy of the standard deduction, Recovery Rebate Credit, Charitable Contributions, and income amounts claimed.

The Post Reviews should rely on source documents, including a complete intake and interview sheet and all Forms W-2 and 1099. Per SPEC function guidelines, tax returns are to be considered inaccurately prepared if the file received from the QSS reviewers lacks sufficient information for an effective independent validation of the tax return accuracy.

An incorrect assessment of the Volunteer Program quality of service can cause the IRS to misdirect its efforts aimed at identifying volunteer tax preparation process deficiencies and steering strategic activities, including volunteer training. It could also cause the IRS to report



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incorrect accuracy rates. Ultimately, it is the quality of volunteer-prepared tax returns that is at risk.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 3: Ensure that the QSS Reviews completed at the volunteer sites are selected by the SPEC function QSS reviewer, the samples are random, and complete documentation is obtained.

Management's Response: The IRS agreed with this recommendation. The current process requires that the QSS reviewers select the first available return once it has been quality reviewed. The selection is random. The IRS will reemphasize this process and the need to obtain complete documentation in Fiscal Year 2010 QSS Reviewer Training.

Recommendation 4: Require that QSS Review training be revised based on the results of the 2009 Filing Season to better ensure that tax returns are randomly selected and that both QSS and Post Reviews are consistently supported by sufficient documentation.

Management's Response: The IRS agreed with this recommendation. It will ensure QSS Review training is revised based on the results of the 2009 Filing Season. The IRS will also reemphasize this process and the need to obtain complete documentation in Fiscal Year 2010 QSS Reviewer Training.



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Appendix I

Detailed Objective, 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 IRS Volunteer Program¹ sites. Data used in the various figures were provided for perspective only and were not audited. To accomplish the objective, we:

- I. Determined whether the VITA and TCE sites were accurately preparing individual income tax returns based on facts provided by the taxpayer. We selected a judgmental sample of 51 VITA/Co-Located VITA and TCE/AARP sites nationwide and attempted to have tax returns prepared. This resulted in only 49 completed tax returns—one tax return could not be prepared at an AARP site because the site had reached its capacity before the employee arrived, and one tax return was eliminated because the employee did not provide the required information to the volunteer so that an accurate tax return could be prepared.

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.² Therefore, we could not determine the total population of Volunteer Program sites and could not select a statistical sample.³

- II. Assessed the effectiveness of the SPEC function's quality review process to evaluate and monitor the overall accuracy of tax returns prepared at Volunteer Program sites.
 - A. Obtained and provided the Volunteer Program Return Review statistical sampling plan to an independent statistician to review for soundness.
 - B. Accompanied and observed QSS reviewers as they completed the tax return review process to ascertain the level of reviewer compliance with policy and procedures in

¹ Includes the VITA and TCE Programs. During this review, the TCE sites we visited were those sponsored by the AARP (formerly the American Association of Retired Persons).

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

³ See Appendix V for a list of cities and States selected.



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place to ensure reliability of results. A total of seven observation visits were completed. The seven were selected based on the SPEC function's review schedule and the auditor's availability.

- C. Selected a random sample of 43 Post Reviews to assess for completeness and accuracy. The sample was selected from a population of 679 tax returns. The random selection was completed electronically using computer software.



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Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

Augusta R. Cook, Director

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Jerome Antoine, Auditor

Kathy Coote, Auditor

Mary Keyes, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
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
Director, Stakeholder Partnership, Education, and Communications, Wage and Investment
Division SE:W:CAR:SPEC
Senior Operations Advisor, Wage and Investment Division SE:W:S
Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PRA:PEI
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: Commissioner, Wage and Investment Division SE:W:S:PRA:PEI



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Appendix IV

*Treasury Inspector General for Tax Administration
Audit Reports on the Volunteer Return
Preparation 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 31, 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 4, 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).

Accuracy of Volunteer Tax Returns Is Improving, but Procedures Are Often Not Followed (Reference Number 2007-40-137, dated August 29, 2007).

Accuracy of Volunteer Tax Returns Continues to Improve, but Better Controls Are Needed to Ensure Consistent Application of Procedures and Processes (Reference Number 2008-40-177, dated September 18, 2008).



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Appendix V

Cities and States Visited to Have Tax Returns Prepared

- Phoenix, Arizona
- Adelanto, California
- Chula Vista, California
- Fontana, California
- San Francisco, California
- Vernon, Connecticut
- Westport, Connecticut
- Windsor, Connecticut
- Miami, Florida
- Tucker, Georgia
- Chicago, Illinois
- Boston, Massachusetts
- Minneapolis, Minnesota
- Carolina Beach, North Carolina
- Wilmington, North Carolina
- New York, New York
- Cincinnati, Ohio
- Tulsa, Oklahoma
- Philadelphia, Pennsylvania
- Houston, Texas
- New Braunfels, Texas
- San Antonio, Texas
- Seattle, Washington



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Appendix VI

*Results of Tax Returns Incorrectly Prepared
at Volunteer Program 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
Adelanto, California	TCE	\$0	\$300	-\$300	
Boston, Massachusetts	TCE	-\$2	\$598	-\$600	
Chicago, Illinois	VITA	\$2,213	\$2,338	-\$125	
Fontana, California	TCE	\$0	\$300	-\$300	
Miami, Florida	TCE	\$603	\$598		\$5
Miami, Florida	VITA	\$1,834	\$2,338	-\$504	
Minneapolis, Minnesota	VITA	\$589	\$639	-\$50	
Minneapolis, Minnesota	VITA	\$589	\$639	-\$50	
Minneapolis, Minnesota	TCE	\$589	\$639	-\$50	
New York City, New York	VITA	\$751	\$598		\$153
New York City, New York	TCE	\$1,504	\$2,338	-\$834	
New York City, New York	VITA	\$5,015	\$598		\$4,417
Philadelphia, Pennsylvania	TCE	\$589	\$639	-\$50	
Phoenix, Arizona	VITA	\$589	\$639	-\$50	
San Antonio, Texas	VITA	\$589	\$639	-\$50	
San Antonio, Texas	VITA	\$589	\$639	-\$50	
San Francisco, California	VITA	\$1,959	\$2,338	-\$379	
Seattle, Washington	VITA	\$589	\$639	-\$50	
Seattle, Washington	VITA	\$1,692	\$2,338	-\$646	
Tulsa, Oklahoma	VITA	\$589	\$639	-\$50	
Totals:				-\$4,138	\$4,575

Source: Anonymous visits performed by our auditors.



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Appendix VII

General Characteristics of Tax Year 2007 Tax Returns Prepared by the Volunteer Program¹

Type of Tax Return	Tax Return Volume	Percentage of Total
U.S. Individual Income Tax Return (Form 1040)	2,508,428	85.88%
U.S. Individual Income Tax Return (Form 1040A)	341,771	11.70%
Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ)	60,787	2.08%
U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents (Form 1040NR-EZ)	8,560	0.29%
U.S. Individual Income Tax Return (PC) (Form 1040PC)	601	0.02%
U.S. Nonresident Alien Income Tax Return (Form 1040NR)	305	0.01%
U.S. Self-Employment Tax Return – Virgin Islands, Guam, American Samoa	198	<0.01%
U.S. Self-Employment Tax Return – Puerto Rico (Form 1040-PR)	104	<0.01%

Refund Due/ Balance Due	Dollar Totals	Tax Return Volume	Percentage of Tax Return Volume
Refund Due	\$2,005,362,648	1,632,776	55.90%
Balance Due	\$415,050,674	426,726	14.61%
Breakeven	\$0	861,252	29.49%

¹ The IRS Volunteer Program includes the VITA and TCE Programs.



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Filing Status/Dependent Claims	Tax Return Volume	Percentage of Total
Single	1,888,496	64.66%
Married Filing Jointly	695,070	23.80%
Head of Household	291,923	9.99%
Married Filing Separately and Spouse Is Required to File	44,047	1.51%
Widow(er) With Dependent Child	1,095	0.04%
Married Filing Separately and Spouse Is Not Required to File	123	<0.01%
Tax Return Prepared With One or More Dependent Exemptions, Including Parents	464,087	15.89%
Tax Return Prepared With No Dependent Exemptions	2,456,667	84.11%

Credits Claimed	Tax Return Volume	Dollar Totals
Earned Income Tax*	515,734	\$657,233,158
Child Tax*	162,808	\$151,577,221
Additional Child Tax*	153,241	\$139,291,822
Retirement Savings Contributions*	112,245	\$17,879,299
Education	65,964	\$44,016,616
Child and Dependent Care*	32,851	\$15,126,892
Other (Adoption, Gas, and Health Coverage Tax)	515	\$740,995

* = This credit was included in our test scenarios.

Income	Tax Return Volume	Dollar Totals
Average Income ²	2,920,754	\$17,006
Other Income ³	134,280	\$325,552,030

Source: IRS management information system containing all Tax Year 2007 tax return data.

² Average Income was determined using computer software to calculate the average total income of all taxpayers.

³ Other Income is a line item on the Form 1040 series tax returns that is not reported on any tax schedules or anywhere else on the tax returns.



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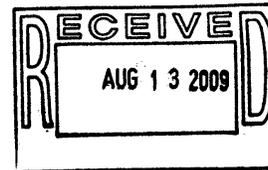
Appendix VIII

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

AUG 13 2009



MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:  Richard Byrd, Jr.
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Ensuring the Quality Assurance Processes Are Consistently Followed Remains a Significant Challenge for the Volunteer Program (Audit #200940002)

I reviewed the subject draft report and generally agree with your recommendations. I appreciate your acknowledgment that the Volunteer Program continues to play an increasingly important role in achieving the IRS goal of improving taxpayer service and facilitating participation in the tax system.

The Wage and Investment Division's Stakeholder Partnerships, Education and Communication office, which is responsible for overseeing the Volunteer Program and its community-based partners, remains committed to providing top quality service to underserved segments of taxpayers, including low to moderate income, elderly, disabled, and limited-English proficient taxpayers. As a result of this combined commitment, the Volunteer Program assisted taxpayers with filing almost 3 million individual Federal income tax returns during the 2009 Filing Season, serving taxpayers at 12,200 community sites across the nation.

I am pleased your report recognizes the IRS is continuing to build on the Quality Review Process. As you indicate, starting with the 2009 Filing Season, our Quality Review Process included use of a specially trained group of Quality Statistical Sample (QSS) reviewers that visited a statistically valid sample of Volunteer Income Tax Assistance/Tax Counseling for the Elderly (VITA/TCE) sites to review a sample of tax returns for accuracy. The data collected from these reviews was used to indicate an accuracy rate for all tax returns produced by the Volunteer Program. Based on assessing 679 tax returns, the QSS reviews resulted in a 78.5 percent accuracy rate with a 90 percent confidence level. In contrast, Treasury Inspector General for Tax Administration (TIGTA) auditors had 49 tax returns prepared at 49 judgmentally selected VITA/TCE sites, resulting in a 59 percent accuracy rate. While we



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acknowledge improvements are needed to the QSS review process, we believe the statistically valid data collected from the QSS reviews provide a more reliable measure of accuracy.

Your report indicates accuracy rates for tax returns prepared for TIGTA auditors decreased for the first time in five filing seasons. Specifically, you note accuracy rates of tax returns prepared for your auditors decreased from 69 percent in the 2008 Filing Season to 59 percent in the 2009 Filing Season. It is important to note nine of the 20 incorrectly prepared returns in your sample used a taxpayer scenario that is not a traditional issue for the VITA/TCE taxpayer base. In this scenario, which you added for the 2009 Filing season to assess volunteers' handling of newly enacted tax laws, the taxpayer inherited a home from a parent and was entitled to receive benefit of a \$500 add-on to the standard deduction due to real estate taxes paid. Although I am in favor of including new tax law as a part of your scenarios, this scenario is representative of less than one percent of our VITA/TCE customer base.

Attached are our comments on your recommendations. If you have any questions, regarding this response, please call me at (404) 338-7060, or a member of your staff may contact Julie Garcia, Director, Stakeholder Partnerships, Education and Communication, Wage and Investment Division, at (404) 338-7104.

Attachment



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Attachment

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1

As part of the ongoing efforts to ensure that all tax returns are accurate, begin trending accuracy rates by site and tax topic to identify patterns and concerns in which to focus education, training, and accountability.

CORRECTIVE ACTION

We agree in part with this recommendation. We captured an accuracy rate, by tax topic, which allowed us to identify patterns and concerns in which to focus education, training, and accountability. When tax law or process errors were identified at the sites, Volunteer Quality Alerts (VQA) or Quality Site Requirements Alerts were issued to inform our partners of recurring issues. For example, some preparers were overlooking the additional standard deduction for taxpayers who did not have enough to itemize, but could claim their state and local real property taxes. As soon as this was known, a VQA was issued as a reminder to our volunteers.

We do not agree to trend accuracy rates by site. Doing this would increase the number of reviews to be conducted at each site. Resources are not available to accomplish this, particularly considering we have more than 12,000 volunteer sites.

IMPLEMENTATION DATE

Completed June 15, 2009

RESPONSIBLE OFFICIAL

Director, Stakeholder Partnerships, Education and Communication, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

Ensure that all new tax law topics and questions pertaining to filing status are incorporated into the IRS intake sheet. In addition, the process for IRS approval of locally developed intake sheets should be augmented to better ensure completeness and consistency of information gathered from taxpayers during the tax return preparation process.

CORRECTIVE ACTION

(a) We agree to incorporate new tax law topics and questions pertaining to filing status into the IRS Intake Sheet. We revised the Tax Year 2009 IRS Intake Sheet to include the provisions of the American Recovery and Reinvestment Act. However, the purpose of the newly designed Intake/Interview and Quality Review Sheet, (Form 13614-C), is not to incorporate every question that should be addressed with



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the taxpayer, but rather to trigger the volunteer preparer's conversation with the taxpayer. This requires them to use the decision trees located in Publication 4012, *Volunteer Resource Guide* or Publication 17, *Your Federal Income Tax (For Individuals)*, or the interview tools in the software provided.

- (b) We agree to augment the process for IRS approval of locally developed Intake Sheets. The current process for locally developed Intake Sheets require that local territory management ensure that locally developed forms have the same questions as the IRS Intake/Interview and Quality Review Sheet (13614-C). To ensure that these procedures are met, this issue will be included in the Area and Territory reviews. To further mitigate the risk of incomplete or inconsistent information gathering, we will require for the 2010 Filing Season that all VITA/TCE grant recipients use our Intake/Interview and Quality Review Sheet (Form 13614-C).

IMPLEMENTATION DATE

- (a) Completed July 15, 2009
(b) February 15, 2010

RESPONSIBLE OFFICIAL

Director, Stakeholder Partnerships, Education and Communication, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 3

Ensure that the QSS Reviews completed at the volunteer sites are selected by the SPEC function QSS Reviewer, the samples are random, and complete documentation is obtained.

CORRECTIVE ACTION

We agree with this recommendation. The current process requires that the Quality Statistical Sample (QSS) reviewers select the first available return once it has been quality reviewed. The selection is random. We will reemphasize this process and the need to obtain complete documentation in Fiscal Year (FY) 2010 QSS Reviewer Training.

IMPLEMENTATION DATE

February 15, 2010



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RESPONSIBLE OFFICIAL

Director, Stakeholder Partnerships, Education and Communication, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 4

Require that QSS Review training be revised based on the results of the 2009 Filing Season to better ensure that tax returns are randomly selected and that both QSS and Post Reviews are consistently supported by sufficient documentation.

CORRECTIVE ACTION

We agree with this recommendation. We will ensure QSS Review training is revised based on the results of the 2009 Filing Season. We will reemphasize this process and the need to obtain complete documentation in FY 2010 QSS Reviewer Training.

IMPLEMENTATION DATE

February 15, 2010

RESPONSIBLE OFFICIAL

Director, Stakeholder Partnerships, Education and Communication, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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