



*Improvements to the Volunteer Program
Are Producing Positive Results, but
Further Improvements Are Needed to
the Quality Assurance Process*

September 3, 2010

Reference Number: 2010-40-109

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



HIGHLIGHTS

IMPROVEMENTS TO THE VOLUNTEER PROGRAM ARE PRODUCING POSITIVE RESULTS, BUT FURTHER IMPROVEMENTS ARE NEEDED TO THE QUALITY ASSURANCE PROCESS

Highlights

Final Report issued on September 3, 2010

Highlights of Reference Number: 2010-40-109 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Volunteer Program plays an important role in achieving 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 directed toward underserved segments of individual taxpayers, including low-income to moderate-income, elderly, disabled, and limited-English-proficient taxpayers.

WHY TIGTA DID THE AUDIT

The audit was a followup to prior TIGTA reviews to determine whether taxpayers receive quality service, including the accurate preparation of their income tax returns, when visiting Volunteer Program tax preparation sites.

WHAT TIGTA FOUND

The accuracy rates for tax returns prepared at Volunteer Program sites increased sharply from the 2009 Filing Season. The increase is attributed to the increase in volunteer use of the Intake/Interview and Quality Review Sheet (Form 13614-C), increased and improved training, and increased oversight.

During January 2010, the IRS implemented a process to help ensure that willful acts of fraud will not occur at Volunteer Program sites. However, not all sites were aware of the procedures or obtained the proper signage used to alert taxpayers of the process to report improper activity.

Resources could be saved by reducing or eliminating paper reference materials when they are available electronically. Each year the IRS spends more than \$600,000 (\$3 million projected over 5 years) to provide paper reference materials to volunteers, even though the tax preparation software it provides has the same reference material.

Improvements are needed to the quality assurance process used to monitor program effectiveness. Results show that quality review procedures were not consistently followed and did not always conform to applicable guidelines. A random sample of 41 of the 184 Post Reviews showed that 9 (22 percent) review files lacked sufficient taxpayer information to support the Reviewers' conclusions.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) revise the site visit checksheet to ensure volunteers and site coordinators understand the process and required signs are posted; 2) ensure referrals reporting improper activities are properly documented, investigated, and resolved; 3) develop an initiative to help reduce or eliminate paper products at Volunteer Program sites; and 4) revise the managerial checksheet used for the Quality Statistical Sample Reviews to include a focus on tax return selection and documentation standards.

The IRS agreed with the recommendations and plans to revise the Field Site Visit Checksheet to ensure volunteers and site coordinators understand the process and that required signs are posted. It will develop procedures to ensure referrals reporting improper activity are documented, investigated, and resolved, and is currently developing strategies to reduce volunteer tax return preparers' reliance on paper products. It also plans to revise the managerial checksheet to include a focus on tax return selection and documentation standards.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 3, 2010

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

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

SUBJECT: Final Audit Report – Improvements to the Volunteer Program Are Producing Positive Results, but Further Improvements Are Needed to the Quality Assurance Process (Audit # 201040018)

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 Volunteer Program¹ sites. This audit is a followup to prior Treasury Inspector General for Tax Administration reviews and is part of our Fiscal Year 2010 Annual Audit Plan.² The audit addresses the major management challenge of Providing Quality Taxpayer Service Operations.

Management's complete response to the draft report is included in Appendix IX.

Copies of this report are also being sent to the Internal Revenue Service 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.

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 VIII for a list of these prior reports.



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Abbreviations

<i>e-filed, e-filing</i>	Electronically file(d); 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 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 for the 2009 Filing Season and 147 grantees were awarded \$7.44 million in matching grants for the

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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2010 Filing Season to extend services to underserved populations in hard-to-reach areas, both urban 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 2009 Filing Season, more than 82,000 volunteers staffed a total of 12,160 VITA and TCE sites. Volunteers prepared approximately 1.8 million individual income tax returns at VITA sites and approximately 1.3 million at TCE sites. Figure 1 provides key production data for the 2007 through 2009 Filing Seasons.

**Figure 1: Key VITA/TCE Production Data
for the 2007 – 2009 Filing Seasons**

	2007 Filing Season	2008 Filing Season	2009 Filing Season	Percentage Change*
VITA				
Paper	146,383	247,828	145,410	-41.33%
E-Filed	1,077,843	1,339,023	1,608,489	20.12%
Total VITA Tax Returns	1,224,226	1,586,851	1,753,899	10.53%
Total VITA Sites	4,474	4,991	6,468	29.59%
Total VITA Volunteers	43,415	46,610	47,964	2.9%
TCE				
Paper	253,632	326,555	111,263	-65.93%
E-Filed	1,144,664	1,563,879	1,165,828	-25.45%
Total TCE Tax Returns	1,398,296	1,890,434	1,277,091	-32.44%
Number of Sites	7,448	6,849	5,692	-16.89%
Number of Volunteers	33,204	32,233	34,689	7.62%
TOTALS				
Tax Returns	2,622,522	3,477,285	3,030,990	-12.83%
Volunteers	76,619	78,843	82,653	4.83%
Sites	11,922	11,840	12,160	2.70%

* = Percentage change is calculated using the change from the 2008 Filing Season to the 2009 Filing Season.

Source: IRS management information system containing 2007 through 2009 Filing Seasons information.

During the 2009 Filing Season, taxpayer demand for volunteer tax services decreased almost 13 percent over the approximately 3.5 million volunteer-prepared tax returns filed during the 2008 Filing Season. The key factor of this decreased activity was the passage of the Economic Stimulus Act of 2008.⁶ For the 2008 Filing Season, the IRS reached out to taxpayers with special emphasis on Social Security and Veterans Administration benefits recipients who had no tax filing requirements.

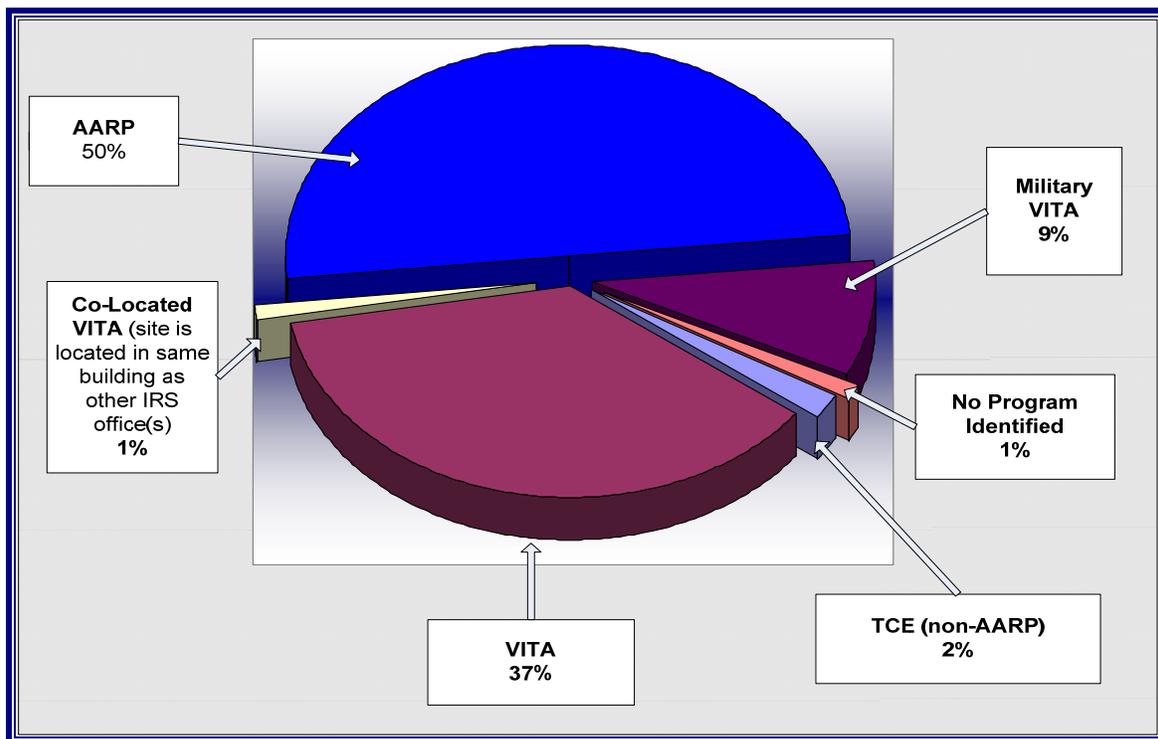
⁶ Pub. L. No. 110-185, 122 Stat. 613.



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This audit included an assessment of tax returns prepared at community-based VITA sites and TCE/AARP-sponsored⁷ sites. Figure 2 provides a breakdown of the Volunteer Program and the percentage of tax returns prepared during the 2009 Filing Season.

Figure 2: Percent of Tax Returns Prepared at the Volunteer Program Sites During the 2009 Filing Season



Source: Our analysis of data retrieved from the IRS management information system containing Tax Year 2008 filing information. No Program Identified = at the time of our data analysis, some data had invalid site codes that could not be matched to an existing Program.

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 Program.

⁷ 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 three 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 2008 tax returns prepared by community-based VITA and TCE sites. The dollar amounts of these 5 credits represented about 44 percent (approximately \$1.14 billion) of the approximately \$2.62 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 753,650 (29 percent) of the 2,571,821 Tax Year 2008 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.⁸
- One scenario was added for the 2010 Filing Season review to assess volunteers' handling of newly enacted tax laws.

Scenario 1 – The taxpayer was single, had never been married, and lived with his or her sister. The taxpayer had 1 child, age 7, who lived with the taxpayer in the home of the taxpayer's sister during school vacations, including the months of June and July, 3 months a year. The child lived with the other parent during the school year. Wages reported on the 2009 Wage and Tax Statement (Form W-2) totaled \$16,435. The taxpayer received a 2009 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 \$438. 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 was eligible for a \$400 Making Work Pay Credit.

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 2009. Wages reported on the 2009 Form W-2 totaled \$28,732. The taxpayer was paid bi-weekly and contributed to a 401(k) retirement plan. The taxpayer received a 2009 Form 1099-INT totaling \$42.13, received

⁸ See Appendix VIII for a list of our prior reports.



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\$400 a month for child support, had dependent care expenses totaling \$1,352, and contributed \$1,253 to a 401(k) retirement plan.

An accurately prepared tax return would result in the taxpayer receiving a refund of \$3,096. 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 \$1,069, a Child Tax Credit of \$867, an Additional Child Tax Credit of \$133, a Child and Dependent Care Credit of \$379, and a Retirement Savings Contributions Credit of \$125. The taxpayer was eligible for a \$400 Making Work Pay Credit.

Scenario 3 – The taxpayer was single with no dependents and shared an apartment with a friend. The taxpayer was employed as a clerk and had Form W-2 wages in the amount of \$18,435 for Tax Year 2009. In June 2009, the taxpayer purchased a new car for \$15,490 and paid sales tax of \$1,084.30. A Form 1099-INT for Tax Year 2009 totaling \$63.08 was also received by the taxpayer.

A correctly prepared tax return would result in the taxpayer receiving a refund of \$1,938. The preparer would have correctly determined that the taxpayer's filing status was Single. The taxpayer would be entitled to receive an increased Standard Deduction amount of \$6,784 based on the sales tax paid on the purchase of a new vehicle. The taxpayer was eligible for a \$400 Making Work Pay Credit.

This review was performed at the IRS SPEC function in the Wage and Investment Division Headquarters in Atlanta, Georgia, during the period December 2009 through June 2010. In addition, from February through April 2010, Treasury Inspector General for Tax Administration auditors performed 39 anonymous visits (called shopping) and had 39 tax returns prepared at 39 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. An auditor also observed 11 Quality Statistical Sample Reviewers as they performed return reviews in 11 States. Appendix VI provides a listing of the States and specific cities visited.

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.



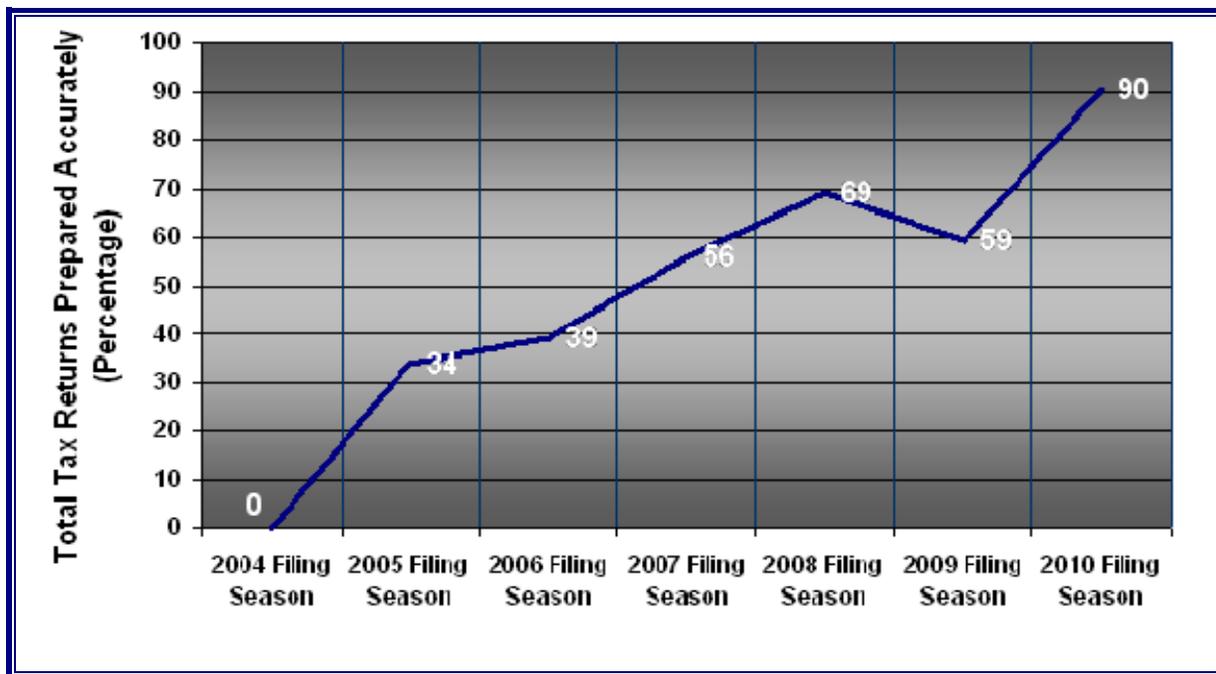
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Results of Review

The Volunteer Program Accuracy Rate Has Increased Significantly

The accuracy rates for tax returns prepared at Volunteer Program sites increased sharply from the 2009 Filing Season. Of the 39 tax returns prepared for our auditors, 35 (90 percent) were prepared correctly. Figure 3 shows the accuracy rates of tax returns prepared for our auditors for the 2004 through 2010 Filing Seasons.

**Figure 3: Overall Tax Return Accuracy Rates
for the 2004 – 2010 Filing Seasons**



Source: Tax returns prepared for our auditors by volunteers for the 2004 – 2010 Filing Seasons.

The IRS took numerous actions to increase the accuracy of tax returns prepared by volunteers; for example, it:

- Mandated that all Volunteer Program sites that received grant funding use the Intake/Interview and Quality Review Sheet (Form 13614-C). The Form 13614-C guides volunteer tax return preparers through taxpayer interviews and allows them to gather all necessary information to prepare accurate tax returns.



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- Increased oversight of the Volunteer Program by combining tax return quality assurance reviews with two additional SPEC function oversight visits. A combination of these visits resulted in SPEC function personnel visiting 5,780 Volunteer Program sites, representing 48 percent of the more than 12,000 Volunteer Program sites.
- Increased requirements to ensure the volunteers are certified that they have the knowledge and skills necessary to prepare quality tax returns.
- Provided new filing season readiness training methods through a digital video disk, accompanying text, and a self-directed learning module.

The increase in accuracy can also be attributed to the significant increase in the volunteer use of the Form 13614-C. Only 2 (5 percent) of the 39 tax returns prepared for auditors during the 2010 Filing Season were prepared without the volunteers using the Form 13164-C. In the 2008 Filing Season review, 33 percent of the volunteers did not use the Form 13164-C, and 22 percent did not use it in the 2009 Filing Season review.

Improvements Are Needed to Ensure Taxpayers Are Aware of How to Report Improper Activity Occurring at Volunteer Program Sites

During January 2010, the SPEC function implemented a process to help ensure that willful acts of fraud will not occur at Volunteer Program sites. However, because of the short time period to develop new procedures and implement the process in the Volunteer Program sites, not all sites were aware of the procedures and/or obtained the proper signage used to alert taxpayers of the process to report improper activity. Therefore, there was no assurance that all improper activities, if any, were detected and reported to the IRS.

In September 2009, the IRS ended a partnership with an organization that had received national attention about allegations of questionable activity. Though the activities were not related to the Volunteer Program, the IRS stated that it is “absolutely critical that taxpayers have trust in our Volunteer Income Tax Assistance program partners.” The IRS Deputy Commissioner asked the SPEC function to improve processes that are intended to provide reasonable assurance that unethical acts do not occur at Volunteer Program sites. In response, the SPEC function initiated a team to evaluate its current and planned processes to determine what actions were necessary. Within 3 months, the team developed and published products to be distributed to Volunteer Program sites to alert taxpayers on how to report improper activities.

The SPEC function has two publications to alert taxpayers on how to report problems.

- ***VITA/TCE Free Tax Preparation Programs (Publication 4836)***. It is an informational document advising taxpayers of how to report problems encountered at a Volunteer Program site. It is a downloadable document that can be printed onsite and posted. It includes an email address for reporting problems. It does not, however, include a toll-free telephone number for those taxpayers who do not have access to the Internet.



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- ***F13614-C Volunteer Poster (Publication 4807)***. It is a poster size image of Form 13614-C, with instructions to aid taxpayers in filling out the Intake/Interview Sheet and Quality Review Sheet.

All Volunteer Program sites are required to either display Publication 4836 or otherwise make it visible so taxpayers are aware of the opportunity to make a referral to the IRS. Of the 39 Volunteer Program sites auditors visited to have tax returns prepared, 35 (90 percent) lacked the required signage. Of the 35 sites with no signage, 32 (91 percent) site coordinators stated they were not aware of the signage or how to obtain it. In addition, of the 39 sites visited, 32 (82 percent) had not received the F13614-C Volunteer Poster.

Of the 39 Volunteer Program sites visited, 35 (90 percent) lacked the required signage to alert taxpayers of how to report a problem encountered at a Volunteer Program site.

Territory offices⁹ are responsible for ensuring all sites are aware of these new products, including mailing the F13614-C Volunteer Poster to each site. SPEC function employees make visits to Volunteer Program sites and discuss a variety of key issues, including:

- Fraud awareness and prevention.
- Adherence to quality site requirements.
- Site and data security.
- Financial education and asset-building opportunities.
- Key tax law issues.

SPEC function employees completed 3,521 field site visits during the 2010 Filing Season. Nevertheless, the checklist used by SPEC function employees during site visits does not include a check for signage. Since the publications are the main avenue through which the IRS is educating taxpayers who visit Volunteer Program sites, the checklist should be revised to document that the site is displaying the proper signage.

Controls over taxpayer referrals need improvement

Using the email address provided on Publication 4836, on March 21, 2010, an auditor posed as a taxpayer and sent an email reporting a problem at a Volunteer Program site. The auditor reported that another taxpayer at the site stated that he had received a larger refund because the volunteer preparer “helped him out.” The SPEC function had no record of receiving the referral. The IRS reported that an email mailbox was not correctly set up for analysts to review.

⁹ The SPEC function is organized geographically into 4 Areas and 37 Territories. Directors are responsible for the Areas and managers for the Territories.



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Once an email is received, the SPEC function requires it to be reviewed and a determination made on whether it warrants further review. If the allegations do not warrant an additional review, a copy of the referral is sent to the appropriate Territory Manager for his or her action. If the allegation appears to have merit and an onsite referral review is warranted, the Territory Manager and Area Director are both notified prior to the onsite review. Immediate action will be taken if the allegations in a referral are valid.

This was the first year the SPEC function provided the publications, required the signage be displayed at the Volunteer sites, and established the referral process. The SPEC function generally finalizes all procedures and processes by August of every year, and communicates them to the volunteer months before the filing season begins. The short turnaround time to develop and implement this new process did not allow the SPEC function time to test the process and ensure sufficient controls were in place.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Revise the site visit checksheet to ensure volunteers and site coordinators understand the process and required signs are posted.

Management's Response: The IRS agreed with this recommendation and will revise the Field Site Visit Checksheet to ensure volunteers and site coordinators understand the process and required signs are posted.

Recommendation 2: Ensure referrals reporting improper activities at Volunteer Program sites are properly documented, investigated, and resolved.

Management's Response: The IRS agreed with this recommendation and will develop procedures to ensure referrals reporting improper activities at Volunteer Program sites are properly documented, investigated, and resolved. All referrals will be reviewed by a team comprised of management and quality analysts.

Resources Could Be Saved by Reducing or Eliminating Paper Reference Materials When They Are Available Electronically

In preparation of the 2009 Filing Season, the SPEC function expended \$619,767 to produce and ship paper reference materials (\$3,098,835 projected over 5 years) used by volunteers in the preparation of tax returns. It also provided electronic versions of the same reference publications in the tax preparation software it purchased and supplied to Volunteer Program sites. In Fiscal Year 2010, the SPEC function





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purchased 10,431 software packages and issued 9,965 to sites at a cost of \$4,820,060.79 (\$462.09 per package).

The IRS surveys its partners to determine their preferred method for receiving (electronic or paper) reference materials. However, it does not aggressively promote electronic reference materials or ask the partners if they use the paper products or could eliminate or reduce the paper products. The SPEC function also does not monitor volunteers' use of these products.

Each volunteer is provided, or each workstation has available, a copy of *Your Federal Income Tax for Individuals* (Publication 17) and *Volunteer Resource Guide* (Publication 4012). Publication 4012 is a training tool and site reference guide and is a critical component of the SPEC function's process-based training delivery approach. It is used in conjunction with both the electronic and printed course materials and is meant to provide volunteers "quick and easy" access to tax law and tax software guidance. The information in the publication (tax law in the form of interview tips, narratives, flowcharts, diagrams, etc.) is designed to assist volunteers in their interactions with taxpayers during the screening and interview process. It also contains guidance for entering data into tax return preparation software and *e-file* guidance—features designed to contribute to preparing an accurate tax return.

Of the 39 sites visited by auditors during the 2010 Filing Season, 31 (79 percent) had the paper versions of the reference materials at their desks. However, volunteers were observed using the reference materials in only 12 (31 percent) of the site visits. Figure 4 shows frequency of volunteer use of reference materials when preparing tax returns for auditors during the 2008 through 2010 Filing Seasons.

**Figure 4: Reference Material Usage Rates
During the 2008 – 2010 Filing Seasons¹⁰**

Filing Season	Did the Volunteer Use Publication 17?		Usage Rate	Did the Volunteer Use Publication 4012?		Usage Rates
	Yes	No		Yes	No	
2010	6	33	15.38%	10	29	25.64%
2009	0	48	0.00%	4	44	8.33%
2008	1	35	2.78%	10	26	27.78%

Source: Tax returns prepared for auditors by volunteers during the 2008 – 2010 Filing Seasons.

¹⁰ Some volunteers used both Publication 17 and Publication 4012.



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Not using a reference guide when preparing a tax return does not always suggest that it was overlooked as a quality assurance tool, but instead can present a situation for which the volunteer believed the reference material was not needed due to the relatively low complexity level of the tax return being prepared.

The SPEC function Education and Product Development staff produces Publication 4012 and includes it in the Volunteer Program training kits. Publication 17 is produced and published by Media and Publication function Tax Forms and Publications Division. For Tax Year 2009, the SPEC function ordered approximately 143,000 Publications 17. Figure 5 provides production and annual costs relative to Publications 4012 and 17.

**Figure 5: Reference Material Costs
for the 2009 Filing Season**

	Volume	Total Cost
Publication 17	143,000	\$111,980
Publication 4012	177,300	\$507,787
Total	320,300	\$619,767

Source: IRS Publishing Services Data System.

Reducing the number of or eliminating these publications at each site would result in significant cost savings. Versions of these publications are already available on the tax software provided to volunteers by the SPEC function.

Recommendation

Recommendation 3: The Commissioner, Wage and Investment Division, should develop an initiative to help reduce or eliminate paper products at Volunteer Program sites.

Management's Response: The IRS agreed with this recommendation. During Fiscal Year 2010, the SPEC function formed a team to address these concerns. The Wage and Investment Division, through the SPEC function, is currently developing strategies designed to reduce volunteer tax return preparers' reliance on paper products. This initiative includes a phased-in approach emphasizing the use of electronic versions of Publication 4012 and Publication 17.

In addition, to reduce the number of these publications that are ordered by the SPEC function and its partners, a self-directed learning module on forecasting and ordering, as well as a training options plan, will be included in the strategy.



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

Limited testing at 11 selected volunteer sites showed that IRS quality reviewers did not consistently follow procedures to ensure tax returns were randomly selected and all tax return information was accurate. In addition, the post-review quality assurance process did not effectively identify and address errors that affect the credibility of the overall accuracy rate. Although Quality Statistical Sample (QSS) Reviews were not supported by sufficient taxpayer information, QSS Post Reviewers considered tax returns to be correct.

The IRS is continuing to build on the quality review process, which has evolved into a three-tier process that includes:

1. A 100 Percent Quality Review at the volunteer sites of every tax return before it is filed. These reviews are generally conducted by a designated quality reviewer using a quality review tool designed to ensure the accuracy of the taxpayer's return.
2. QSS Reviews. 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. During a QSS Review, cadre members randomly select for review three tax returns that have not yet been signed by the taxpayers. Tax return accuracy is determined by verifying the taxpayer's identity and comparing the completed tax return to the completed Form 13614-C and the taxpayer's supporting documents.
3. Post Reviews of selected QSS Reviews. Using tax returns from QSS Reviews, analysts ensure that the case files provide adequate documentation to make an accuracy assessment and validate that the tax returns were prepared correctly. Reviews are selected by the Statistics of Income function using a random sample of all QSS Reviews planned for the 2010 Filing Season.

During the 2009 Filing Season, SPEC function employees performed anonymous shopping visits to volunteer sites to have a judgmental sample of tax returns completed and evaluated for accuracy. Starting with the 2010 Filing Season, the SPEC function decided to discontinue accuracy reviews where IRS employees anonymously shop the Volunteer Program sites to have tax returns prepared.

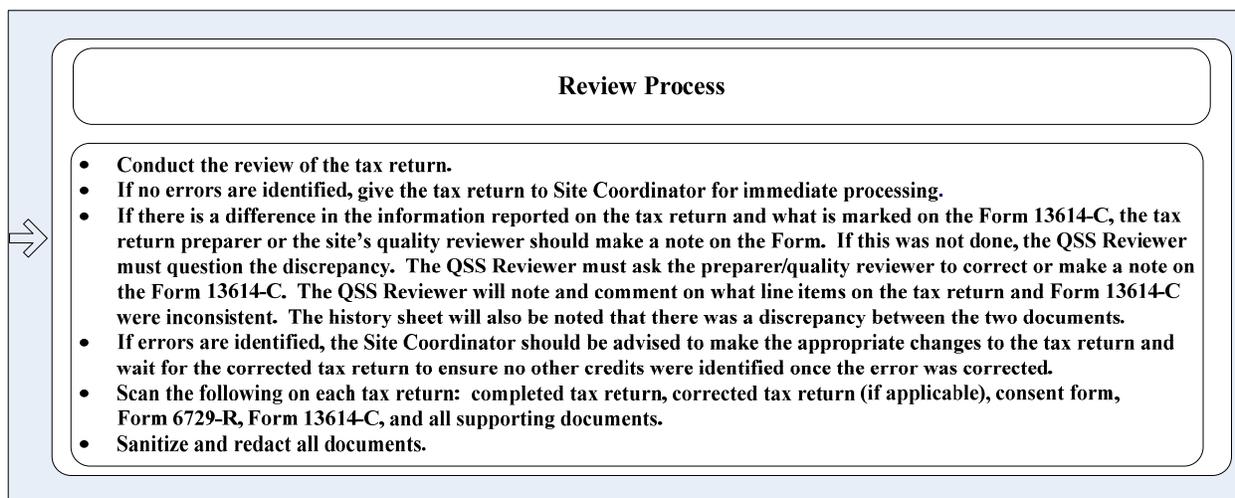
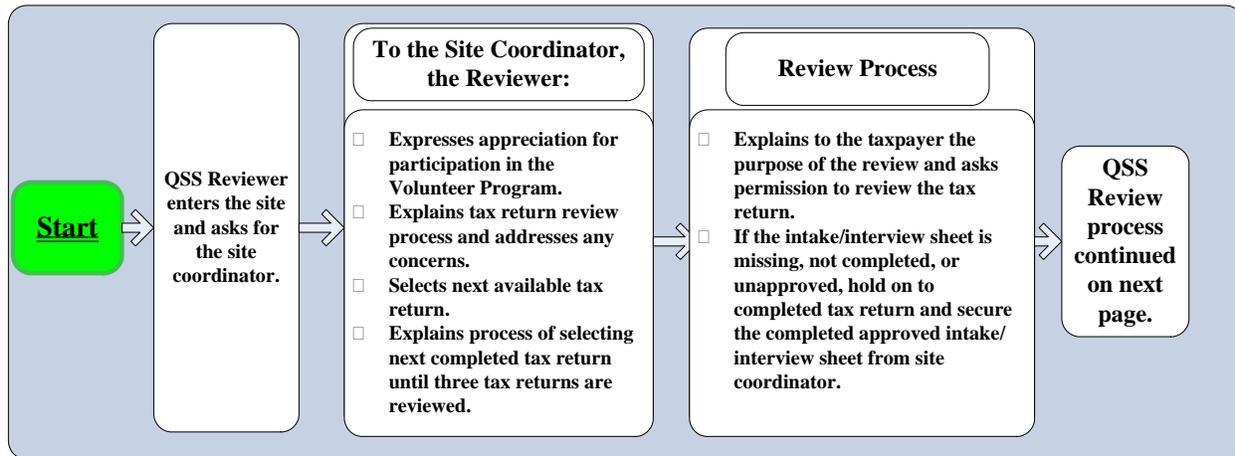
QSS Reviewers did not always follow procedures

The SPEC function conducted 745 of the 855 planned QSS Reviews during the 2010 Filing Season and determined that 627 (84 percent) of the tax returns were correct, up from 79 percent reported for the 2009 Filing Season. The QSS Reviewer uses the QSS Return Review Sheet (Form 6729-R) to guide and document the accuracy assessment. See Figure 6 for the QSS process.



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Figure 6: QSS Return Review Process



Source: *The SPEC function's Filing Season 2010 QSS Centralized Cadre Site and Return Review training manual.*

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. 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 three reviews in the three-tier quality review process.



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QSS Reviewers did not ensure that the selections of tax returns for review were 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 5 of 11 sites visited, Reviewers did not follow the required policy of selecting the next available completed tax return (i.e., the tax return completed and ready for taxpayer signature). The Reviewers did not select tax returns randomly, but selected them based on various other reasons that introduced bias or preference. They also arbitrarily excluded some tax returns from possible selection. This increases the risk that the overall QSS Review results may not be reliable. For example:¹¹

- Three QSS Reviewers became involved in helping the site with the preparation of tax returns. Two of the Reviewers acknowledged that the tax returns in question would be excluded from the review process.
- One QSS Reviewer declined to review completed tax returns that were not quality reviewed by the site quality reviewer. The QSS Reviewer stated that only quality reviewed tax returns were appropriate for QSS Review. Taxpayers left the site with tax returns that were not quality reviewed by the site quality reviewer *or* the QSS Reviewer.
- One QSS Reviewer selected a *****1*****.
- One QSS Reviewer overlooked that there were two designated site quality reviewers and reviewed tax returns from only one of the site reviewers.
- One QSS Reviewer relied on the site coordinator to communicate with the taxpayer.
- A volunteer discouraged taxpayers from participating in the review process and the QSS Reviewer accommodated the volunteer and *****1*****.

QSS Reviewers did not always verify taxpayer information was validated

At 10 of 11 sites, the QSS Reviewers either did not verify or only sporadically verified taxpayer names and Social Security Numbers. However, the QSS Reviewers recorded that the names and Social Security Numbers were validated using proper documentation. When names and Social Security Numbers are not verified, the accuracy of the tax return cannot be effectively determined. An incorrectly spelled name or transposed Social Security Number results in an inaccurate tax return. Mismatch of name and Social Security Number information is one of the top reasons for delays in processing electronic tax returns.

¹¹ Multiple examples may apply to the same site.



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A QSS Review requires inspection of a completed copy of the tax return with source documents attached, including Forms W-2, receipts, etc., and a completed Form 13614-C. The Reviewer should not begin the review until all necessary documents are in hand.

Although managers accompany QSS Reviewers on at least one site visit during the filing season, the oversight checklist used by the managers to guide and record their assessment of the QSS Reviewer's performance does not cover the selection of tax returns or the adequacy of documentation supporting the review. This represents a lost opportunity to reinforce the need to adhere strictly to selection and documentation standards. An incorrect assessment of the Volunteer Program quality of service may cause the IRS to misdirect its resources and efforts aimed at identifying volunteer tax preparation process deficiencies. In addition, the IRS may report incorrect accuracy rates.

Post Reviewers considered tax returns to be correct although they did not have sufficient information to make that determination

Of the 745 total tax return reviews completed, 184 were subject to Post Review. A randomly selected sample of 41 of the Post Reviews identified 9 (22 percent) that were inaccurate but were counted as being correct for purposes of calculating the overall accuracy rate. Errors were generally caused by insufficient information to make a decision on whether the tax return was completed accurately. Missing information included documentation needed to validate the accuracy of the standard deduction, charitable contributions, or income amounts reported.

Post Reviewers relied on assumptions about taxpayers to complete the accuracy assessment. For example, when the file did not contain information on whether a taxpayer had a pension or a mortgage, Reviewers assumed that the taxpayer was too young for a pension or too old to have a mortgage. In addition, a Reviewer accepted a tax return as accurate because the error in income was considered insignificant. This is contrary to SPEC function guidelines and undermines the credibility of the accuracy measure.

A tax return review should be based on a properly completed Form 13614-C. Guidelines require that QSS Reviewers provide explanations and/or clarifications of all discrepancies between tax return entries and supporting documentation, including the Form 13614-C. The explanations and/or clarifications should be recorded on the Form 13614-C or the Form 6729-R. 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. Post Review training should emphasize the importance of ensuring documentation is sufficient to determine the accuracy of the tax returns.

Recommendation

Recommendation 4: The Commissioner, Wage and Investment Division, should revise the managerial checksheet used for the QSS Reviews to include a focus on tax return selection and



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documentation standards. This would help ensure tax returns are selected randomly and all decisions and facts used to prepare tax returns are documented.

Management's Response: The IRS agreed with this recommendation and will revise the managerial checklist used for the QSS Reviews to include a focus on tax return selection and documentation standards.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether taxpayers receive quality service, including the accurate preparation of their income tax returns, when visiting IRS Volunteer Program tax preparation sites. Data included in various figures were provided for perspective only and were not validated. To accomplish the objective, we:

- I. Determined if the Volunteer Program sites were accurately preparing individual income tax returns based on facts provided by the taxpayers. We selected a judgmental sample of 39 VITA/Co-Located VITA and TCE-AARP sites nationwide and attempted to have a tax return prepared. Three sites were selected in each of the cities.

Site selections were based on the volume of tax returns prepared at the sites, auditor resources, and the sites' proximity to major cities. Because the population of Volunteer Program sites is not fixed, a statistical sample could not be used. The total population of Volunteer Program sites could not be determined.

- II. Assessed the effectiveness of the process the IRS followed to evaluate and monitor the overall accuracy of tax returns prepared at Volunteer Program sites.
 - A. Observed 11 QSS Reviewers during the tax return review process to determine whether policies and procedures were followed. The 11 sites selected were based on the SPEC function's review schedule and the auditor's availability.
 - B. Selected a random sample of 41 Post Reviews to assess for completeness and accuracy. The sample was selected from a population of 205 tax returns. A confidence interval of 90 percent, a precision level of ± 5 percent, and an expected error rate of 5 percent was used.
 - C. Assessed the SPEC function's plan for providing reasonable assurance that willful and improper acts do not occur at Volunteer Program sites.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the SPEC function's policies, procedures, and practices for preparing tax returns. We evaluated controls by interviewing management and reviewing policies and procedures. We conducted tests at Volunteer Program sites.



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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
Lena Dietles, Audit Manager
Robert Howes, Lead Auditor
Jean Bell, Senior Auditor
Pamela DeSimone, Senior Auditor
Roberta Fuller, Senior Auditor
Tracy Harper, Senior Auditor
Kathy Coote, Auditor
Jerry Douglas, Auditor
Nelva Usher, Auditor



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Appendix III

Report Distribution List

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



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Cost Savings – Funds Put to Better Use – Potential; \$619,767 spent on paper reference materials used by volunteers; \$3,098,835 projected over 5 years (see page 9).

Methodology Used to Measure the Reported Benefit:

The cost of hard copy reference material was provided by the IRS.¹ From the data provided, we determined that the IRS spent \$111,980 for printing and shipping cost for *Your Federal Income Tax for Individuals* (Publication 17) and \$507,787 for printing and shipping cost for *Volunteer Resource Guide* (Publication 4012), totaling \$619,767 for Calendar Year 2009. Projected over 5 years, the IRS will spend \$3,098,835.

¹ We did not validate the accuracy of cost data provided by the IRS.



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Appendix V

*Cities and States Visited
to Have Tax Returns Prepared*

Tucson, Arizona

Los Angeles, California

Jacksonville, Florida

Atlanta, Georgia

Chicago, Illinois

Fall River, Charlestown, Roxbury,
Massachusetts

Detroit, Michigan

Saint Paul, Minnesota

Brooklyn, New York

Winston-Salem, North Carolina

Cleveland, Elyria, Lakewood, Ohio

Pittsburgh, Pennsylvania

Houston, Texas



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Appendix VI

Cities and States Visited to Observe Reviewers

Phoenix, Arizona
Bakersfield, California
Fort Myers, Florida
Darien, Illinois
Baltimore, Maryland
Wakefield, Massachusetts
Ocean Springs, Mississippi
New York City, New York
Rocky Mount, North Carolina
Bartlesville, Oklahoma
Midlothian, Virginia



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Appendix VII

General Characteristics of Tax Year 2008 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)	2,410,442	93.73%
U.S. Individual Income Tax Return (Form 1040A)	91,506	3.56%
Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ)	60,576	2.36%
U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents (Form 1040NR-EZ)	8,025	0.31%
U.S. Individual Income Tax Return (PC) (Form 1040PC)	594	0.02%
U.S. Nonresident Alien Income Tax Return (Form 1040NR)	270	0.01%
U.S. Self-Employment Tax Return – Virgin Islands, Guam, American Samoa (Form 1040-SS)	223	0.009%
U.S. Self-Employment Tax Return – Puerto Rico (Form 1040-PR)	185	0.007%
Totals	2,571,821	100.01% ²

Source: IRS management information system containing all Tax Year 2008 tax return data.

Refund Due/ Balance Due	Dollar Totals	Tax Return Volume	Percentage of Tax Return Volume
Refund Due	\$2,622,909,519	1,930,807	75%
Balance Due	\$334,613,066	367,793	14%
Breakeven	\$0	273,221	11%
Totals	\$2,957,522,585	2,571,821	100%

Source: IRS management information system containing all Tax Year 2008 tax return data.

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

² Total does not equal 100 percent due to rounding.



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Appendix VIII

Treasury Inspector General for Tax Administration Audit Reports on the Volunteer Tax 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).

Ensuring the Quality Assurance Processes Are Consistently Followed Remains a Significant Challenge for the Volunteer Program (Reference Number 2009-40-128, dated September 15, 2009).



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Appendix IX

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
AUG 13 2010

BY: *DAS*

August 12, 2010

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report - Improvements to the Volunteer
Program Are Producing Positive Results, but Further
Improvements Are Needed to the Quality Assurance
Process (Audit # 201040018)

We have reviewed the subject draft report and agree with your findings and recommendations. We appreciate your acknowledgement that improvements to the Volunteer Program continue to play an increasingly important role in achieving the IRS goal of improving taxpayer service and facilitating participation in the tax system. We also appreciate your acknowledgement that your visits to volunteer tax preparation sites revealed a sharp increase in the accuracy rates for tax returns prepared for your auditors. Specifically, of the 39 tax returns prepared for your auditors, 35 (90 percent) were prepared correctly by our volunteers.

The Wage and Investment Division's Stakeholder Partnership, Education, and Communication (SPEC) function, which is responsible for overseeing the Volunteer Program, and its more than 4,000 partners, remains committed to providing top quality service to the nation's underserved taxpayers, including low to moderate income, elderly, disabled, rural, and limited English proficient individuals. As a result of this combined commitment between SPEC and its national and local partners, the Volunteer Program assisted taxpayers with filing more than three million individual Federal income tax returns during the 2010 Filing Season. Taxpayers were served at 12,326 community sites across the nation.

While the overall results of your review were favorable, you also identified opportunities for improvement. For example, you acknowledged during SPEC's January 2010 implementation of a process that will help prevent occurrences of willful acts of fraud at Volunteer Program sites. However, because of the short time period to develop and implement the process in the Volunteer Program, auditors were concerned that there was no assurance that all improper activities, if any, were detected and reported to the IRS.



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The SPEC function generally socializes major changes of this type with partners no later than August of the preceding year. In order to address this item, SPEC will immediately revise its Field Site Visit Checksheet to ensure volunteers and site coordinators understand the process and required signs are posted.

With regard to your recommendation that we develop an initiative to help reduce or eliminate paper products at Volunteer Program sites, it should be noted that during Fiscal Year 2010, SPEC formed a team to develop a strategy to address this issue. This initiative includes a phased-in approach to emphasizing the use of electronic versions of Publication 4012, Volunteer Resource Guide, and Publication 17, Your Federal Income Tax for Individuals. While we believe these actions will help reduce paper products at Volunteer Program sites, there will continue to be a need for some printed products due to equipment issues, personal needs, volunteer needs, and customer demands.

We have reviewed your outcome measure and agree with it based on observations in the report. However, since SPEC's volunteers and customers rely heavily on printed materials, we believe reducing too quickly or completely eliminating paper products could jeopardize the accuracy of tax returns prepared at volunteer sites. As previously stated, a SPEC team is currently developing a phased-in approach to this issue.

Attached are our specific comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Michael Beebe, Acting Director, Stakeholder Partnership, Education and Communication, Wage and Investment Division, at (404) 338-7593.

Attachment



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Attachment

The Commissioner, Wage and Investment, should:

Recommendation 1: Revise the site visit checksheet to ensure volunteers and site coordinators understand the process and required signs are posted.

Corrective Action:

We agree with this recommendation and will revise the Field Site Visit Checksheet to ensure volunteers and site coordinators understand the process and required signs are posted.

Implementation Date

November 15, 2010

Responsible Official

Director, Stakeholder Partnership, 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 2: Ensure referrals reporting improper activities at Volunteer Program sites are properly documented, investigated, and resolved.

Corrective Action

We agree with this recommendation and will develop procedures to ensure referrals reporting improper activities at Volunteer Program sites are properly documented, investigated, and resolved. All referrals will be reviewed by a team comprised of management and quality analysts.

Implementation Date

October 15, 2010

Responsible Official

Director, Stakeholder Partnership, 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: The Commissioner, Wage and Investment Division, should develop an initiative to help reduce or eliminate paper products at Volunteer Program sites.



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Corrective Action

We agree with this recommendation. During Fiscal Year 2010, Stakeholder Partnership, Education and Communication (SPEC) formed a team to address these concerns. The Wage and Investment Division, through the SPEC function, is currently developing strategies that are designed to reduce volunteer tax return preparers' reliance on paper products. This initiative includes a phased-in approach emphasizing the use of electronic versions of Publication 4012, *Volunteer Resource Guide*, and Publication 17, *Your Federal Income Tax for Individuals*.

Additionally, to reduce the number of these publications that are ordered by SPEC and its partners, a self-directed learning module on forecasting and ordering, as well as a training options plan, will be included in the strategy.

Implementation Date

June 15, 2011

Responsible Official

Director, Stakeholder Partnership, 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: The Commissioner, Wage and Investment Division, should revise managerial checksheet used for the QSS Reviews to include a focus on tax return selection and documentation standards. This would help ensure tax returns are selected randomly and all decisions and facts used to prepare tax returns are documented.

Corrective Action

We agree with this recommendation and will revise the managerial checksheet used for the Quality Statistical Sample Reviews, to include a focus on tax return selection and documentation standards.

Implementation Date

November 15, 2010

Responsible Official

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



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Corrective Action Monitoring Plan

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