



*Additional Steps Are Needed to Ensure the
Volunteer Income Tax Assistance
Grant Program Reaches More
Underserved Taxpayers*

April 30, 2012

Reference Number: 2012-40-049

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.



HIGHLIGHTS

ADDITIONAL STEPS ARE NEEDED TO ENSURE THE VOLUNTEER INCOME TAX ASSISTANCE GRANT PROGRAM REACHES MORE UNDERSERVED TAXPAYERS

Highlights

Final Report issued on April 30, 2012

Highlights of Reference Number: 2012-40-049 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Volunteer Income Tax Assistance (VITA) Grant Program has become a significant component of the IRS's Volunteer Program. One-third of the tax returns prepared by the Volunteer Program are prepared by VITA Grant Program grantees. The IRS should begin to use historical data to assess its progress in meeting the VITA Grant Program objective of extending coverage to the underserved. These data will allow the IRS to grow the Program beyond the current partners by targeting its recruitment efforts to new partners serving the underserved populations.

WHY TIGTA DID THE AUDIT

Previously, the IRS was unable to provide analysis of VITA Grant Program recipients' prior year VITA tax return preparation statistics. Since Fiscal Year 2008, when Congress first appropriated funds for the VITA Grant Program, volunteers and partners have moved from the Volunteer Program to the VITA Grant Program. Our overall objective was to determine whether the VITA Grant Program is achieving its purpose of extending services to underserved populations in hard-to-reach areas, both urban and nonurban.

WHAT TIGTA FOUND

The VITA Grant Program has established appropriate guidelines to ensure grant funds are distributed according to the law and regulations. From Fiscal Years 2009 to 2011, the number of grantees grew 61 percent (from 111 to

179 grantees), and the number of tax returns prepared by grantees grew 38 percent (from 786,058 to 1,080,875). However, much of this growth appears to be a transition to the VITA Grant Program rather than overall growth in the Volunteer Program.

Analysis of the 51 grantees that received VITA Grant Program funding for Fiscal Years 2009 through 2011 showed that 21 (41 percent) did not reach 90 percent of their tax return preparation goals but received increased funding in the subsequent year. In addition, taxpayers with incomes over the thresholds for free tax return preparation had tax returns prepared by the VITA Grant Program. Nine percent of the tax returns prepared by the VITA Grant Program in Calendar Year 2009 and 6 percent in Calendar Years 2010 and 2011 were for taxpayers with incomes over the income threshold.

The IRS collects data to select grantees and allocate awards. However, it is still not using the data to determine where to market the VITA Grant Program and what underserved geographic areas need more coverage.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS, after analyzing current data and establishing a baseline, develop measures and goals to ensure the VITA Grant Program is meeting the legislative intent of extending services to underserved populations and hardest-to-reach areas, both urban and nonurban. These data would assist the IRS in targeting its recruitment efforts to new partners assisting the underserved populations and by establishing performance measures for the individual grantees to determine if they are meeting the Program's objectives and goals.

IRS management agreed to continue analysis of available data to ensure the VITA Grant Program is meeting legislative intent.

The IRS did not address the establishment of a baseline for the VITA Grant Program in its response. Without a baseline, it will continue to be difficult for the IRS to determine what underserved geographic areas need more coverage.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 30, 2012

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

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

SUBJECT: Final Audit Report – Additional Steps Are Needed to Ensure the
Volunteer Income Tax Assistance Grant Program Reaches More
Underserved Taxpayers (Audit # 201140009)

This report presents the results of our review to determine whether the Volunteer Income Tax Assistance Grant Program is achieving its purpose of extending services to underserved populations in hard-to-reach areas, both urban and nonurban. This audit was part of our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Providing Quality Taxpayer Service Operations.

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

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendation. 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.



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

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Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

Abbreviations

e-file(d); e-filing	Electronically file(d); electronic filing
IRS	Internal Revenue Service
SPEC	Stakeholder Partnerships, Education, and Communication
VITA	Volunteer Income Tax Assistance



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

Background

The Internal Revenue Service's (IRS) first goal is to improve service to taxpayers to make voluntary compliance easier. To help achieve this goal, the IRS Volunteer Income Tax Assistance (VITA) Program was implemented, originating in 1969 due to enactment of the Tax Reform Act of 1969¹ and an increased emphasis on taxpayer education programs.

Who Can Apply For the VITA Grant Program?

To be eligible for funding under the VITA Grant Program, applicants must meet the following requirements:

- Qualify as a nonprofit organization or government entity.
- Demonstrate tax compliance with Federal tax obligations.
- Provide matching funds.
- Not be debarred or suspended.
- Have an unqualified opinion or qualified opinion without a significant deficiency when required by the Office of Management and Budget to have a financial statement audit.
- File all required reports timely if a previous VITA Grant or Tax Counseling for the Elderly Grant Program recipient.

Matching funds consist of cash, computer hardware and software, and third-party, in-kind contributions. Funding from other Federal grants cannot be counted as matching funds.

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. During the 2011 Filing Season,² almost 3.2 million tax returns were prepared by volunteers in the IRS Volunteer Program.³

In December 2007, Congress appropriated funds to the IRS to establish and administer a one-year matching grant program in consultation with the Taxpayer Advocate Service.

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

Congress has appropriated funds for this Program annually since Fiscal Year 2008.

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

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

³ The Volunteer Program is comprised of the VITA Program, the Tax Counseling for the Elderly Program, and the VITA Grant Program.



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

The IRS defines “underserved populations” as low-income taxpayers who may also be elderly, limited-English proficient, disabled, Native American, or who live in rural or urban areas, or other hard-to-reach areas. The grants are also to be used to increase the capacity to file returns electronically, heighten quality control, enhance training of volunteers, and significantly improve the accuracy rate of returns prepared by VITA Program sites. The establishment of the VITA Grant Program enables the IRS to offer funding to assist organizations in sustaining its Volunteer Program.

The IRS awarded VITA grants for the first time in November 2008 to organizations that offered free tax preparation services during the 2009 Filing Season. Each year, the IRS has increased the number of award recipients and has increased grants from \$7.4 to \$12 million.

- \$7.4 million to 111 organizations for the 2009 Filing Season.
- \$7.4 million to 147 organizations for the 2010 Filing Season.
- \$12 million to 179 organizations for the 2011 Filing Season.
- \$12 million to 213 organizations for the 2012 Filing Season.

Figure 1 shows a breakdown of tax returns prepared by the VITA Grant Program for Fiscal Years 2009 through 2011.

Figure 1: VITA Grant Program Tax Returns Filed During Fiscal Years 2009 Through 2011

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
Paper	60,297	67,019	65,183
Electronically Filed (e-filed)	725,761	821,749	1,015,692
Total Grant Returns	786,058	888,768	1,080,875

Source: Grant Program Office production reports.

The organizations are currently located in 50 States and the District of Columbia.

The IRS’s Stakeholder Partnerships, Education, and Communication (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.





Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

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 August 2011 through January 2012. 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.



Results of Review

The Volunteer Income Tax Assistance Grant Program Has Become a Significant Component of the Volunteer Program

Since Fiscal Year 2008, when Congress first appropriated funds for the VITA Grant Program, the VITA Grant Program has become a significant component of the IRS's Volunteer Program. One-third of the tax returns prepared by the Volunteer Program are prepared by VITA Grant Program grantees. From Fiscal Years 2009 to 2011, the number of grantees has grown 61 percent (from 111 to 179 grantees), and the number of tax returns prepared by grantees has grown 38 percent (from 786,058 to 1,080,875).

The Volunteer Program as a whole has not grown as significantly as the VITA Grant Program has grown. Instead, volunteers and partners have moved from the Volunteer Program to the VITA Grant Program—shifting from partners that do not receive grants to grantees. The IRS believes the increase from \$8 million to \$12 million in Fiscal Year 2010 allowed it to share more widely in the cost of service delivery during a period of declining partner resources.

Figure 2 gives a comparison of the number of grantees, grantee sites, volunteers, and tax returns prepared for Fiscal Years 2009 through 2011 for the VITA Grant Program and the Volunteer Program as a whole.

Figure 2: Comparison of VITA Grant Program Elements for Fiscal Years 2009 Through 2011

Element	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Percentage Increase From Fiscal Years 2009 to 2011
VITA Grant Program				
Grantees	111	147	179	61%
Sites	2,727	3,232	3,651	34%
Tax Returns E-Filed	725,761	821,749	1,015,692	40%
Tax Returns Prepared	786,058	888,768	1,080,875	38%



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

Element	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Percentage Increase From Fiscal Years 2009 to 2011
Total Volunteer Program				
Volunteers	82,653	87,602	88,527	7%
Sites	12,160	12,326	12,486	3%
Tax Returns E-Filed	2,773,336	2,829,415	2,978,081	7%
Tax Returns Prepared	3,047,622	3,085,512	3,188,524	5%

Source: Grant Program Office reports and SPEC function Fiscal Years 2011 and 2012 Program Guides.

The VITA Grant Program is meeting several of the legislative objectives, such as the number of tax returns prepared and tax returns e-filed. For the Volunteer Program, the IRS has increased the tax returns e-filed, heightened quality control, and enhanced training of the volunteers. The SPEC function continues to emphasize the importance of the accuracy of tax returns prepared at all Volunteer Program sites, and its quality results show improvement has been made.

In each of Fiscal Years 2009 and 2010, the Grant Program Office used \$560,000 to cover administrative labor costs. However, the IRS now distributes almost the entire appropriation to grantees. For Fiscal Year 2012, the IRS awarded approximately \$12 million⁴ to grant recipients. Additionally, to control costs and reduce burden, the IRS is allowing qualified grantees in good standing to apply for grants using a streamlined application for the subsequent two years. While an application is required each year, the application is not as detailed and requires less time for the grantees and the IRS; therefore, saving resources for both grantees and the IRS.

The VITA Grant Program has established appropriate guidelines to ensure grant funds are distributed according to the law and regulations

In Fiscal Year 2008, the IRS established the Grant Program Office in the SPEC function, which oversees the Tax Counseling for the Elderly and VITA Grant Programs. The Grant Program Office has focused on establishing a process to solicit grantees, select grantees, and ensure that grant money is used according to all laws and regulations.

The IRS timely solicits grantees

The IRS posts the Notice of Funds Availability in the Federal Register, but also markets the availability of the VITA Grant Program, for example, through:

⁴ The IRS used \$24,000 for Program budget purposes.



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

- Brochures highlighting the VITA Grant Program, its requirements, application process, and timeline is provided to SPEC function field employees to share with their partners and coalitions.
- Announcements on IRS.gov, the IRS’s public Internet site, and Grants.gov.

The IRS also alerts its stakeholders and partners through conference calls, fact sheets, and talking points about the VITA Grant Program. Additionally, the IRS maintains a Partner Resource web page on IRS.gov with related grant information. The web page provides links to forms, publications, reporting requirements, and other information needed by the grantees to apply and administer their grant funds.

The IRS appropriately screened and selected applicants

The Grant Program Office has established a four-step process for selecting VITA Grant Program grantees. Figure 3 lists the steps to select grantees.

Figure 3: Steps to Select Grantees

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

Requirements	Selection Criteria
1. Was a nonprofit organization or government entity.	1. Experience with Low Income and/or Tax Return Preparation.
2. Compliant with Federal tax obligations.	2. Sustainability and Growth Strategy.
3. Has matching funds.	3. Strength of Program.
4. Not debarred or suspended.	4. VITA Target Audience.
5. Filed all required reports.	5. Ability to Partner or Collaborate with Multiple Organizations.
	6. Quality Control Process.
	7. Program Measures.

Source: SPEC function guidelines.



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

A review of a judgmental sample of 11 of 51 grantees receiving grants for Fiscal Years 2009 through 2011 showed all procedures were followed and all grantees met Program selection criteria.⁵ For example, all grantees tested:

- Submitted all required documents and all case files were complete.
- Were qualified organizations.
- Had matching funds.
- Were compliant with tax laws.

Not all grantees met their tax return preparation goals

An analysis of 51 grantees that received VITA Grant Program funding for Fiscal Years 2009 through 2011 showed that of the 51 grantees, 21 (41 percent) did not reach 90 percent of their tax preparation goals but received increased funding in the subsequent year. Ten grantees revised their filing goals more than once. There are valid reasons to revise projections such as reducing projections and goals based on the difference between grant award request and actual grant award. However, 24 revisions caused grantees to overachieve their goals by more than 10 percent, one by as much as 248 percent. Conversely, 20 grantees did not achieve their tax return production goals, even after reducing the projection. Most case files did not include documentation that indicated why the goals were not achieved or had been surpassed.

For Fiscal Years 2009 through 2011, the Grant Program Office expected the grantees to achieve 90 percent of their tax return preparation goals. However, the grantees did not have subsequent awards decreased if they filed less than 90 percent of their tax return preparation goals.

For Fiscal Year 2012, the Grant Program Office expects the grantees to meet 100 percent of their goals. SPEC function officials stated that for Fiscal Year 2012, the grantees' prior performance was reviewed and they expect to hold grantees accountable for meeting Fiscal Year 2012 expectations. If tax return preparation goals are not reached, future grant allocations may be affected.

Measures and Goals Are Needed to Ensure Legislative Intent Is Being Met

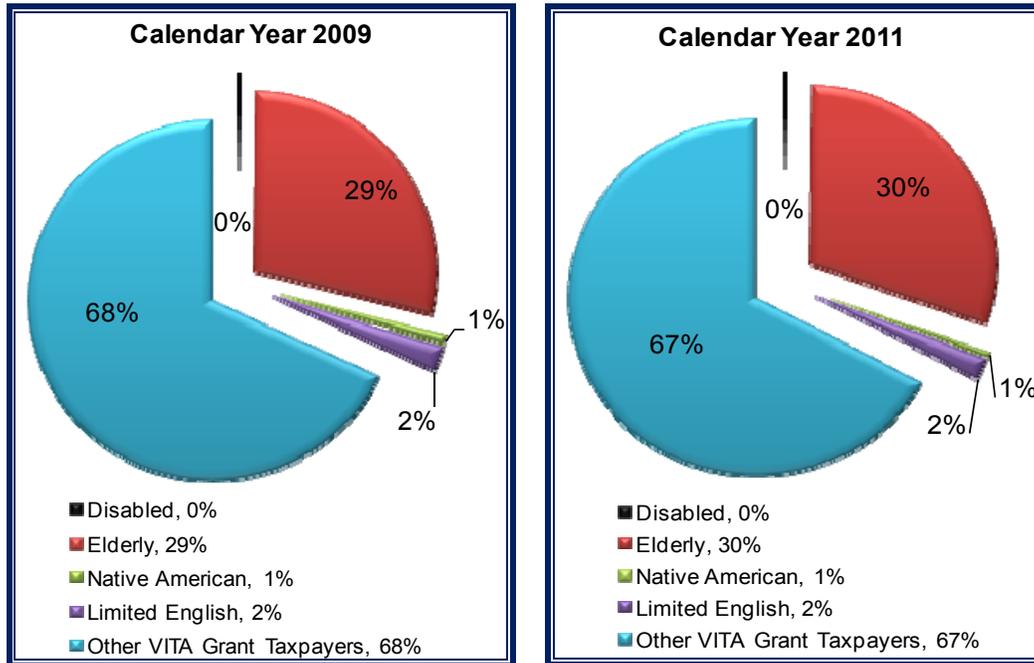
Figure 4 shows the change in market share (the percentage of tax returns prepared for a specific population compared to the whole population of returns prepared by the VITA Grant Program) for specific underserved populations.

⁵ A judgmental sample is a nonstatistical sample, the results of which cannot be used to project to the population.



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

Figure 4: Market Share for the VITA Grant Program Underserved Populations for Calendar Years 2009 and 2011



Source: Our analysis of the Return Transaction File⁶ for individual tax returns identified as filed through the VITA Grant Program.

There were no significant changes in the market share of populations served in Calendar Years 2009 and 2011. While the number of tax returns prepared by VITA Grant Program grantees increased 38 percent, the ratio of tax returns prepared for the underserved populations to the whole population of tax returns prepared by the VITA Grant Program grantees showed minimal to negative growth.

Taxpayers with incomes greater than established annual thresholds are having tax returns prepared by the VITA Grant Program

IRS guidance states the “VITA Program uses trained volunteers to prepare basic tax returns for *low-income* taxpayers in both urban and nonurban locations including persons with disabilities, non-English speaking persons, elderly taxpayers, and Native Americans.” Every year, the IRS establishes the threshold in which free tax help will be offered. Generally, free tax preparation is offered to taxpayers with incomes of \$49,000 or less.

- For Calendar Year 2009, income was not to exceed \$42,000.

⁶ The Return Transaction File contains all edited, transcribed, and error-corrected data from the Form 1040, *U.S. Individual Income Tax*, series and related forms for the current processing year and two prior years.



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

- For Calendar Years 2010 and 2011, income was not to exceed \$49,000.

Nine percent of the tax returns prepared by the VITA Grant Program in were for taxpayers with incomes greater than the income threshold. The percentage was

The Adjusted Gross Income⁷ of all tax returns exceeding income guidelines comprised 22 percent of the Adjusted Gross Income for all VITA Grant Program tax returns prepared during . Figure 5 compares tax returns prepared with incomes over the guidelines to the total returns prepared by the VITA Grant Program.

Figure 5: VITA Grant Program Tax Returns With Incomes Higher Than Guidelines Prepared During Calendar Years 2009 Through 2011

Calendar Year	Total Tax Returns	Tax Returns With Incomes Higher Than Guidelines	Percentage of Tax Returns to Total Tax Returns
2009	726,529	68,560	9%
2010	842,432	50,969	6%
2011	1,001,777	64,420	6%

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

Fifty (98 percent) of 51 sampled grantees prepared 11,410 returns for taxpayers with Adjusted Gross Income greater than \$100,000 during Calendar Years 2009 through 2011. Although these tax returns represent less than 1 percent of the 1.9 million total tax returns prepared by the 51 grantees, preparing tax returns for taxpayers with incomes substantially greater than the established thresholds could affect thousands of low-income taxpayers.

Tax returns were also prepared for 13 taxpayers with Adjusted Gross Income exceeding \$700,000.

- 2 (4 percent) of the 51 grantees prepared seven returns for taxpayers with Adjusted Gross Income exceeding \$1 million.
- 3 (6 percent) of the 51 grantees prepared six returns for taxpayers with Adjusted Gross Incomes between \$700,001 and \$1 million.

At least three of the 13 tax returns were volunteers' personal tax returns. The Volunteer Program does not prohibit volunteers from preparing their own or relatives' tax returns.

⁷ Adjusted Gross Income is defined as gross income minus adjustments to income.



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

The IRS needs to establish a baseline for the VITA Grant Program so that it can determine its progress in reaching the legislative intent

During the first three years of the VITA Grant Program, the Grant Program Office focused its resources on establishing procedures and administering grants. With three years of data available, the Grant Program Office should now have sufficient data to establish a baseline to measure the VITA Grant Program. This will help ensure it is making progress in meeting the legislative intent of the grant.

The SPEC function uses outcome measures to measure and set goals/targets for the Volunteer Program and Key Business Indicators to track Volunteer Program performance

The VITA Grant Program is included in the Volunteer Program’s outcome measures and Key Business Indicators. Outcome measures include Return Preparation Accuracy and Percent of Individual Returns Filed Electronically. The Number of Tax Returns Prepared is an output measure. Using these measures, the SPEC function establishes targets for the Volunteer Program. Fiscal Year 2012 targets are:

- Number of Tax Returns Prepared – 3.2 million.
- Return Preparation Accuracy – 87 percent.
- Percent of Individual Returns Filed Electronically – 92 percent.

There are no outcome measures or targets to determine if the Volunteer Program is increasing its coverage of underserved populations. Instead, the SPEC function uses Key Business Indicators. Figure 6 shows the Key Business Indicators for Coverage Rates the SPEC function reported for the Volunteer Program for Fiscal Years 2010 and 2011.

Figure 6: Coverage Rates* for Fiscal Years 2010 and 2011 for the Volunteer Program

Key Business Indicators	Definition	Fiscal Year 2010 Actual	Fiscal Year 2011 Actual
Overall – Low-Income Tax Returns	Percent of low-income tax returns receiving volunteer return preparation service.	3.7%	3.7%
Limited-English-Proficient Tax Returns	Percent of Limited-English-Proficient households receiving volunteer tax return preparation service.	1.8%	1.8%



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

Key Business Indicators	Definition	Fiscal Year 2010 Actual	Fiscal Year 2011 Actual
Persons With a Disability Tax Returns	Percent of persons with a disability receiving volunteer tax return preparation service.	3.1%	3.4%
Seniors' Tax Returns	Percent of tax returns filed by seniors (age 60+) receiving volunteer tax return preparation service.	8.8%	8%
Rural Tax Returns	Percent of persons living in rural areas receiving volunteer tax return preparation service.	3.2%	3.4%

*Source: SPEC function Fiscal Year 2012 Program Guide. * = Coverage is defined as the percentage of tax returns prepared by the Volunteer Program to the total population of individual tax returns filed in that category or to American Community Survey Census data.*

In addition to extending coverage to underserved taxpayers, funding for the VITA Grant Program is provided to heighten quality control, enhance training of volunteers, and significantly improve the accuracy rate of returns prepared by VITA Grant Program sites. To measure these objectives, the Grant Program Office relies on the Volunteer Program's quality assurance program. The quality assurance program utilizes statistical sampling, case reviews, and on-site visits to ensure all processes and procedures are being followed and tax returns are being prepared correctly.

The SPEC function does not select separate samples from VITA Grant Program sites to test for accuracy, but because the IRS uses statistical sampling, a representative number of VITA Grant Program sites should be included in the sample. It would require significantly more resources to measure and assess the VITA Grant Program at the Program level. However, as we reported in August 2011,⁸ quality assurance processes remain a problem for the Volunteer Program.

⁸ Treasury Inspector General for Tax Administration, Ref. No. 2011-40-094, *Accuracy of Tax Returns, the Quality Assurance Processes, and Security of Taxpayer Information Remain Problems for the Volunteer Program* (Aug. 2011).



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

In August 2009, we reported that the IRS would establish the baseline for the VITA Grant Program's performance goals during the 2009 Filing Season⁹

During that audit, we reported that we were unable to assess the success of the VITA Grant Program's first year. The IRS was unable to provide analysis of VITA Grant Program recipients' prior year VITA tax return preparation statistics. These data were to be used during the award process to compare prior year tax return preparation data with the 2009 Filing Season projections. Grant Program Office officials stated they did not have time to collect these data and conduct the analysis.

The Grant Program Office currently collects data specific to grantees, for example, data on the number of tax returns prepared, number of tax returns filed on paper and e-filed, number of volunteers, and number of tax return preparation sites. These data are being used to select grantees and allocate awards, but the data are still not being used to determine where to market the VITA Grant Program and what underserved geographic areas need more coverage.

There are challenges in collecting sufficient data to determine coverage to the underserved

The SPEC function has to rely on data from several sources. It collects data directly from grantees, the tax software used to prepare the tax returns, various IRS computer systems, and the U.S. Census. These data are not always comparable.

For example, the grantees report the number of underserved taxpayers they assist. These numbers may not match the IRS's tax records because tax returns do not include information on race, disabilities,¹⁰ or limited-English proficiency. Additionally, our analysis showed, and the IRS has determined, that grantees' final numbers on their accomplishments do not always match the IRS's. The number of tax return preparation sites reported by the grantees can differ because the sites may not be linked to the correct partner and the identification numbers used by sites may be inaccurate.

In addition, although most of the VITA Grant Program grantees have participated in prior filing seasons, the number and location of tax return preparation sites are dependent on the willingness of individuals to volunteer. Changes in the number of volunteers, sites, and locations make it difficult to compare progress from year to year.

Finally, beginning in Fiscal Year 2012, the IRS will no longer identify and direct the engagement of local resources and partners to address specific underserved low-income populations: persons in rural geographies, persons with a disability, and persons who are of limited-English proficiency. Instead, these populations will be treated as part of the overall low-income

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

¹⁰ Taxpayers can check the box stating they are blind. This generally allows taxpayers who are blind an additional standard deduction.



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

population in each territory. This may make measuring the success of reaching these underserved populations more difficult.

SPEC function officials stated that each territory would make decisions on how to allocate resources to increase service to any specific, underserved groups. However, SPEC function Headquarters will continue to maintain the tools, resources, and data unique to these market segments and will make this information available. It plans to continue to update the resources with best practices using territory input.

Nevertheless, the SPEC function should begin to use historical data to assess the IRS's progress in meeting the VITA Grant Program objective of extending coverage to the underserved. This would allow the Grant Program Office to work with the SPEC function Territory managers to recruit partners in underserved locations. Recruiting for the VITA Grant Program has generally been limited to current Volunteer Program participants, and in reality has been limited to posting announcements and waiting to see who applies.

The strengths of the Volunteer Program lie with the partner organizations and their volunteers. The VITA Grant Program has become a significant component of the IRS's Volunteer Program. Agencies should establish general goals and objectives for the major functions and operations of the agency. The Volunteer Program plays an increasingly important role in achieving the IRS's goal of improving taxpayer service and facilitating participation in the tax system. The SPEC function needs to establish the VITA Grant Program's overall geographic and target population measures and goals. It also needs to establish measures for the individual grantees to determine if they meet their plans and goals.

The strengths of the Volunteer Program lie with the partner organizations and their volunteers. The VITA Grant Program has become a significant component of the IRS's Volunteer Program.



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, after analyzing current data and establishing a baseline, should develop measures and goals to ensure the VITA Grant Program is meeting the legislative intent of extending services to underserved populations and hardest-to-reach areas, both urban and nonurban. These data would assist the IRS in targeting its recruitment efforts to new partners serving the underserved populations and by establishing measures for the individual grantees to determine if they are meeting the Program's objectives and goals.

Management's Response: IRS management agreed to continue analysis of available data to ensure the VITA Grant Program is meeting legislative intent. The IRS will continue calculating a coverage rate annually for each segment representing underserved populations for the entire Volunteer Program, of which the VITA Grant Program is part. The coverage rate represents the percentage of the population receiving volunteer return preparation services. The IRS will continue to use key business indicators to guide VITA Grant recruitment efforts and monitor program performance. In addition, beginning with the 2012 grant, a minimum return goal was incorporated into each organization's grant agreement.

Office of Audit Comment: The IRS did not address the establishment of a baseline for the VITA Grant Program in its response. The IRS previously told us that it would establish a baseline for the VITA Grant Program's performance goals during the 2009 Filing Season. However, it did not. Without a baseline, it will continue to be difficult for the IRS to determine where to market the VITA Grant Program and what underserved geographic areas need more coverage.



Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the VITA Grant Program is achieving its purpose of extending services to underserved populations in hard-to-reach areas, both urban and nonurban. To accomplish our objective, we:

- I. Determined whether the IRS has established appropriate performance measures and goals for the VITA Grant Program by interviewing VITA Grant Program Office officials and reviewing documents, including policies and procedures, related to the Program.
- II. Determined how the VITA Grant Program Office has measured its progress toward reaching its goals and achieving the intent and purpose of the Program.
 - A. Identified how the VITA Grant Program Office measures geographic coverage and how it determines if it is meeting the goal to expand coverage to the underserved populations.
 - B. Obtained IRS reports on the number of tax returns prepared by the VITA Grant Program from the 2009 to 2011 Filing Seasons and determined how the IRS monitors, tracks, and determines if the grantees have met their goals—the number of tax returns prepared and the underserved populations they attempted to reach.
 - C. Selected all 51 grantees that participated in the VITA Grant Program for Fiscal Years 2009, 2010, and 2011. We reviewed a judgmental sample¹ of 11 grantees to determine if the grantees were appropriately selected for the Program.
 - D. Discussed and assessed the IRS's future plans to improve the Program.
- III. Assessed the IRS's decision to allow some organizations to apply for annual funding for up to three years.
- IV. Identified the demographics of taxpayers whose tax returns were prepared by the VITA Grant Program grantees to validate the VITA Grant Program Office's data and determined whether the VITA Grant Program is achieving its intended results.
 - A. Obtained a copy of the Preparer's Return Transaction File² and identified tax returns prepared by the SPEC function Volunteer Program for Calendar Years 2009, 2010, and 2011.

¹ A judgmental sample is nonstatistical sample, the results of which cannot be used to project to the population.

² The Return Transaction File contains all edited, transcribed, and error-corrected data from the Form 1040, *U.S. Individual Income Tax*, series and related forms for the current processing year and two prior years.



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- B. Identified the sites and tax returns prepared by the VITA Grant Program grantees for Calendar Years 2009, 2010, and 2011.
- C. Identified the demographics of taxpayers whose tax returns were prepared by the VITA Grant Program grantees for Calendar Years 2009, 2010, and 2011 by, for example, income level (wages and gross income), age, city, State, zip code, filing status, *etc.*
- D. Obtained outreach reports since the inception of the Program to determine if the outreach has focused on the areas with little or no VITA Grant Program coverage.

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 soliciting, reviewing, and approving applications for the VITA Grant Program as well as the SPEC's procedures for monitoring the performance of the VITA Grant Program grantees. We evaluated controls by interviewing management and reviewing policies and procedures.



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

Appendix II

Major Contributors to This Report

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

Augusta R. Cook, Director

Paula W. Johnson, Audit Manager

Jean Bell, Lead Auditor

Ken Carlson, Senior Auditor

Jack Forbus, Senior Auditor

Patricia Jackson, Senior Auditor

Kathy Coote, Auditor

Nelva Usher, Auditor

Kim McMenamin, Program Analyst

Joseph L. Katz, Ph.D., Contractor, Statistical Sampling Consultant



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

Appendix III

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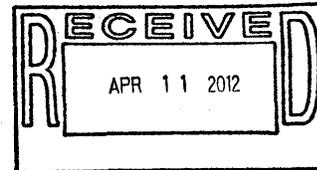
Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308



April 11, 2012

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: ^{for} Peggy Bogadi *Delora S. Holland*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report - Additional Steps Are Needed to Ensure the
Volunteer Income Tax Assistance Grant Program Reaches
More Underserved Taxpayers
(Audit # 201140009)

The Volunteer Income Tax Assistance (VITA) Grant Program offers free tax preparation services to taxpayers in low-to-moderate income ranges. This matching grant program was established to provide funding to qualified VITA partner applicants, and to assist them in providing VITA services to targeted taxpayer segments. The Program extends services to underserved populations and hardest-to-reach areas, both urban and non-urban. Underserved populations, for purposes of the VITA Program, are not just taxpayers who have low-to-moderate levels of income. The Program also serves disabled, limited-English proficient, Native American, Military, and elderly taxpayers, regardless of income. The Program supports IRS initiatives by promoting electronic filing, and assures the quality and accuracy of tax returns prepared with the Program by providing a robust training program to the volunteers.

Since inception, the VITA Grant Program Office has established appropriate guidelines to ensure funds are distributed pursuant to applicable law and regulations. In Fiscal Year 2011, 179 VITA grants totaling \$12 million, were awarded, and almost 1.1 million returns were prepared. This compares to 111 grantees receiving \$7.4 million, and preparing 786,058 returns in the first year of the program (2009). The VITA grant funding was introduced during a time of economic challenges that were adversely affecting our partners' ability to maintain or increase services. Partner growth, as well as sustainability, came to the forefront as an obstacle to overcome in order to continue delivering services to our targeted taxpayer segments. The number and locations of tax return preparation sites are dependent on various resources (i.e., space, equipment, supplies, etc.) and the willingness of individuals to volunteer. Therefore, volunteer



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recruitment is also a priority. Incentives have been offered to volunteers, such as preparing their returns and those of family members, for the purpose of retaining existing sites while also gaining new ones.

In addition to growing and sustaining partner program operations, we increased quality control processes, enhanced training of the VITA volunteers, and realized a significant improvement in the accuracy rate of returns prepared by VITA sites. The Stakeholder Partnerships, Education and Communication (SPEC) function, which oversees the VITA Program, continued to recruit, sustain, and engage partners to deliver services. As a result, the number of returns prepared increased by 38 percent from 2009 to 2011.

Despite these actions, some grant partners fell short of meeting their tax return preparation goals. Since goals are targeted projections, the targets were modified based on various factors such as the number of volunteers available, hours of service, number of taxpayers seeking assistance, etc. We addressed this concern with our grantees and will ensure similar adjustments are properly documented. With the 2012 grant process, a minimum return goal was incorporated into each organization's grant agreement. We will also monitor actual tax return preparation compared to the projected goal as a measure in the grant program evaluation.

Our Volunteer Program serves over 3 million taxpayers. Changes in the number of volunteers, sites, and locations present challenges with comparing progress on a frequent basis. Therefore, to assess our progress with specific market segments, coverage rates are calculated annually. Best practices in successful cities are identified and then shared with partners in cities with low coverage rates. The report indicates the ratio of tax returns prepared for the underserved populations to the whole population of tax returns by VITA grantees showed minimal to negative growth. Our data shows that, overall, we increased return service. For example, services to Native Americans increased between 2010 and 2011 by 27 percent. Due to the large number of taxpayers served, our coverage rates are calculated for each segment representing underserved populations for the entire Volunteer Program. This holds true for our quality assurance process as well. By assessing these components across the board, we are able to make the best use of our resources. We will ensure partners are progressing in serving the targeted populations by creating a partner portfolio assessment tool and calculating an annual coverage rate for each segment representing underserved populations in the Volunteer Program. Performance will be monitored through our key business indicators and used to guide our VITA Grant recruitment efforts for targeted markets.

The report identified tax returns having been prepared for taxpayers with incomes greater than established thresholds. There are conditions under which this can occur. Although the targeted audiences for VITA services have been generally low-to-moderate income taxpayers, some taxpayers are served without regard to income as long as they meet other qualifying guidelines or exceptions. Additionally, there is no



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demographic information captured as part of the return information filed with the IRS on Native Americans, persons with limited English proficiency, or persons with disabilities to assist in identifying provided service.

Also, to assist in recruitment and retention efforts, volunteers are offered the incentive of preparing and filing their tax returns, and those of family members, through the program. Returns prepared under this scenario have no impact on service to other low-income taxpayers since they are generally not prepared during normal site operation hours.

The Volunteer Program also provides services to underserved market segments through the Tax Counseling for the Elderly Program and SPEC's robust outreach program. The Virtual VITA model is marketed to partners that are not in the same location as the taxpayer. In lieu of face-to-face meetings, technology is used to connect the volunteer and taxpayer. This model is suitable for remote as well as urban locations, thereby increasing the ability of SPEC to extend services to underserved populations in locations where partners do not have the necessary resources to prepare returns under the traditional face-to-face VITA model. Together, these programs demonstrate we are serving these market segments and are responding to changes in population needs. The SPEC Business model is driven by research and data analysis, and continually evolves to respond to the changing needs, preferences, and behaviors of its taxpayers and the partners that serve them.

Attached is our response to your recommendation. If you have any questions, please contact me, or a member of your staff may contact Michael Beebe, Director, SPEC, Wage and Investment Division, at (404) 338-7593.

Attachment



Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers

Attachment

Recommendation 1

The Commissioner, Wage and Investment Division, after analyzing current data and establishing a baseline, should develop measures and goals to ensure the VITA Grant Program is meeting the legislative intent of extending services to underserved populations and hardest-to-reach areas, both urban and nonurban. These data would assist the IRS in targeting its recruitment efforts to new partners serving the underserved populations and by establishing measures for the individual grantees to determine if they are meeting the Program's objectives and goals.

Corrective Action

We agree to continue analysis of available data to ensure the Volunteer Income Tax Assistance (VITA) Grant Program is meeting legislative intent. We will continue calculating a coverage rate annually for each segment representing underserved populations for the entire Volunteer Program of which the VITA Grant Program is part. The coverage rate represents the percentage of the population receiving volunteer return preparation services. The IRS will continue to use key business indicators to guide VITA Grant recruitment efforts and monitor program performance. In addition, beginning with the 2012 grant, a minimum return goal was incorporated into each organization's grant agreement.

Implementation Date

Implemented

Responsible Official

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

Corrective Action Monitoring Plan

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