



*Ensuring the Quality Review Process
Is Consistently Followed Remains a
Problem for the Volunteer Program*

July 27, 2012

Reference Number: 2012-40-088

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

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HIGHLIGHTS

ENSURING THE QUALITY REVIEW PROCESS IS CONSISTENTLY FOLLOWED REMAINS A PROBLEM FOR THE VOLUNTEER PROGRAM

Highlights

Final Report issued on July 27, 2012

Highlights of Reference Number: 2012-40-088 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Volunteer Program provides no-cost Federal tax return preparation and electronic filing to underserved segments of individual taxpayers, including low- to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. However, preparing accurate tax returns remains a challenge for the Volunteer Program. When taxpayers are denied credits or deductions to which they are entitled, they may never realize they are in fact entitled to these funds, and those who know they are entitled will have the added burden of filing an amended tax return to obtain the funds.

WHY TIGTA DID THE AUDIT

This was a follow-up audit to prior TIGTA reviews to determine whether taxpayers visiting IRS Volunteer Program sites receive quality service, including accurate tax returns.

WHAT TIGTA FOUND

The accuracy rates of tax returns prepared for our auditors at IRS Volunteer Program sites increased from 39 percent in the 2011 Filing Season to 49 percent in the 2012 Filing Season. Three of 16 tax topics tested contributed the most errors—the deductions for Educator Expenses, Individual Retirement Arrangement contributions, and small business expenses. The accuracy rates for three other topics ranged from 77 to 83 percent, and the accuracy rates for the remaining 10 tax topics were greater than 90 percent.

Tax returns were prepared incorrectly because volunteers did not follow all guidelines. For

example, volunteers did not always use the intake sheets correctly.

The deductions and credits to which the auditors were entitled were denied on three tax returns because the auditors did not provide receipts to support the expenditures. These were not counted as errors when calculating the accuracy rates.

The IRS has implemented an extensive quality review process, but it has limitations and may not be providing reliable results. The accuracy rate for the IRS's statistical sample of prepared tax returns is 92 percent. This year, the IRS also conducted 53 anonymous shopping visits. Volunteers prepared tax returns for IRS shoppers with a 60 percent accuracy rate.

The IRS has taken numerous actions to ensure the integrity of volunteers. It has strengthened the Volunteer Standards of Conduct and requires that all volunteers take ethics training. It also made improvements to the Volunteer Program hotline to better track and control contacts received through its internal and external referral processes.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS continue to emphasize with volunteers the necessity of reviewing the intake sheet with taxpayers during tax return preparation to ensure tax returns are prepared accurately. The IRS should also establish minimum due diligence standards for volunteers when preparing tax returns.

In their response to the report, IRS officials agreed with the recommendations. The IRS updated Form 13614-C, *Intake/Interview and Quality Review Sheet*, and plans to continue to emphasize training on proper intake and interview techniques. The IRS plans to adjust volunteer training and resource materials to clarify and underscore the due diligence obligations of volunteers when preparing tax returns.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 27, 2012

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM:

Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Ensuring the Quality Review Process Is
Consistently Followed Remains a Problem for the Volunteer Program
(Audit # 201240002)

This report presents the results of our review to determine whether taxpayers visiting Internal Revenue Service Volunteer Program¹ sites receive quality service, including accurate tax returns. This was a follow-up audit to prior Treasury Inspector General for Tax Administration reviews² and is part of our Fiscal Year³ 2012 Annual Audit Plan. 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 X.

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 Augusta R. Cook, Acting Assistant Inspector General for Audit (Returns Processing and Account Services), at (770) 617-6434.

¹ Includes the Volunteer Income Tax Assistance Program, the Tax Counseling for the Elderly Program, and the Volunteer Income Tax Assistance Grant Program.

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

³ A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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Abbreviations

IRA	Individual Retirement Arrangement
IRS	Internal Revenue Service
QSS	Quality Statistical Sample
SPEC	Stakeholder Partnerships, Education, and Communication
SPECTRM	SPEC Total Relationship Management System
TCE	Tax Counseling for the Elderly
VITA	Volunteer Income Tax Assistance



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Background

The Volunteer Program plays an important role in achieving the Internal Revenue Service's (IRS) goals of improving taxpayer service and facilitating participation in the tax system. It provides no-cost Federal tax return preparation and electronic filing to underserved segments of individual taxpayers, including low- 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. The Volunteer Program is comprised of the Volunteer Income Tax Assistance (VITA) Program, including the Volunteer Income Tax Assistance Grant Program, and the Tax Counseling for the Elderly (TCE) Program.

The VITA Program was originated in 1969 due to enactment of the Tax Reform Act of 1969¹ and an increased emphasis on taxpayer education programs. The IRS has placed continual emphasis on expanding the VITA Program through increased recruitment of various religious, social and 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 1978² 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 sponsors³ for their expenses.

Since Fiscal Year 2009,⁴ the IRS has granted funds for the VITA Grant Program. For the 2012 Filing Season,⁵ 213 organizations were awarded almost \$12 million in matching grants.

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



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 Pub. L. No. 95-600, 92 Stat. 2810.

³ A sponsor would be an entity similar to the AARP (formerly the American Association of Retired Persons).

⁴ A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.

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



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

For Fiscal Year 2011, more than 88,500 volunteers staffed a total of 12,486 Volunteer Program sites. Volunteers prepared more than 1.8 million individual income tax returns at VITA sites and more than 1.3 million at TCE sites. Figure 1 provides key production data for Fiscal Years 2009 through 2011.

Figure 1: Key Volunteer Program Data for Fiscal Years 2009–2011

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Percentage Change*
VITA				
Paper Returns	145,828	153,998	139,399	-9.48%
Electronically Filed Returns	<u>1,608,605</u>	<u>1,631,617</u>	<u>1,712,030</u>	<u>4.93%</u>
Total VITA Tax Returns	1,754,433	1,785,615	1,851,429	3.69%
Total VITA Sites	6,468	5,845	6,276	7.37%
Total VITA Volunteers	47,964	52,296	53,642	2.57%
TCE				
Paper Returns	111,502	88,385	58,248	-34.10%
Electronically Filed Returns	<u>1,165,843</u>	<u>1,196,898</u>	<u>1,261,513</u>	<u>5.40%</u>
Total TCE Tax Returns	1,277,345	1,285,283	1,319,761	2.68%
Number of Sites	5,692	6,481	6,210	-4.18%
Number of Volunteers	34,689	35,306	34,885	-1.19%
TOTALS⁶				
Tax Returns ⁷	3,031,778	3,070,898	3,171,190	3.27%
Sites	12,160	12,326	12,486	1.30%
Volunteers	82,653	87,602	88,527	1.06%

Source: IRS management information system containing information for Fiscal Years 2009 through 2011.

* = Percentage change is calculated using the change from Fiscal Year 2010 to 2011.

This audit included an assessment of tax returns prepared at VITA sites and TCE/AARP sponsored sites. Figure 2 provides a breakdown of the Volunteer Program and the percentage of tax returns prepared during the 2012 Filing Season.

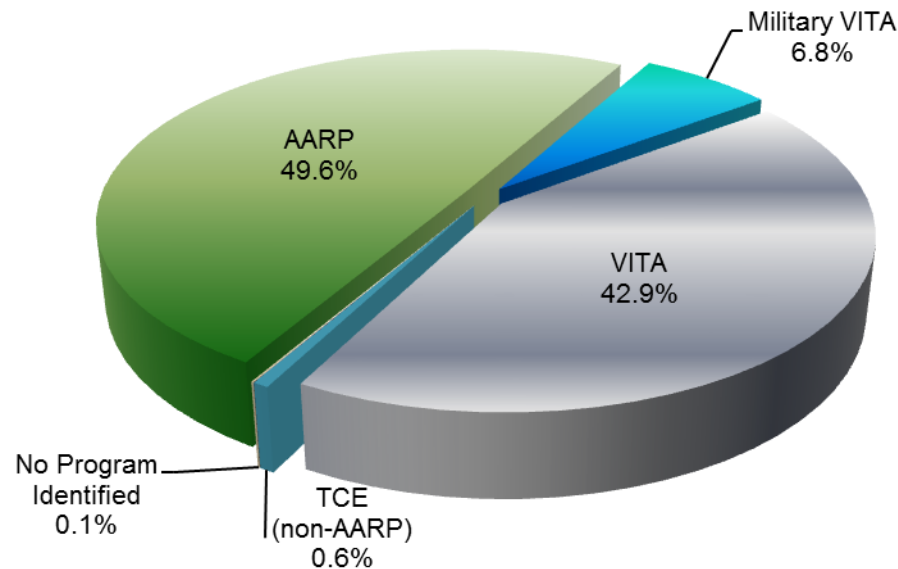
⁶ The Tax Returns and Site totals for Fiscal Year 2011 do not include tax returns prepared using Facilitated Self Assistance or those sites.

⁷ This does not include tax returns prepared in a volunteer site without the program type (VITA, TCE, or Military) being identified.



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Figure 2: Percentage of Tax Returns Prepared at the Volunteer Program Sites During the 2012 Filing Season



Source: IRS Stakeholder Partnerships, Education, and Communication function.

The IRS 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, tax preparers, and community partners to support the Volunteer Program.

Tax scenarios used by auditors reflected tax topics volunteers were trained to handle for taxpayers seeking assistance from the Volunteer Program

Three scenarios were designed for auditors to use as they posed as taxpayers having tax returns prepared by volunteers (referred to as shopping). 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. The scenarios included only tax topics for which the volunteers had been trained.

In addition, although most tax returns prepared by volunteers are prepared for taxpayers who file with no dependents, auditors used two scenarios that included tax topics dealing with dependents and related tax credits. About 80 percent (2.4 of 3 million) of the taxpayers who use the Volunteer Program tax preparation assistance receive tax refunds. Three credits, the Earned Income Tax Credit, the Child Tax Credit, and the Additional Child Tax Credit, contributed to



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42 percent (\$1.6 of \$3.8 billion) of the tax refunds issued to taxpayers who had their tax returns prepared by volunteers in the 2012 Filing Season. These credits generally require that taxpayers have dependents to claim the credits. Figure 3 shows the amount of refunds generated by Tax Year 2011 returns prepared by the Volunteer Program.

Figure 3: Refunds or Balances Due Generated From Tax Returns Filed as of May 3, 2012, Prepared by the Volunteer Program⁸

Refund Due/ Balance Due	Dollar Totals	Tax Return Volume	Percentage of Tax Return Volume
Refunds Due	\$3,798,900,016	2,401,165	80.56%
Balances Due	\$286,575,286	301,264	10.11%
Breakeven	\$0	278,155	9.33%

Credits Claimed	Dollar Totals	Tax Return Volume
Earned Income Tax Credit	\$1,016,851,086.00	683,206
Additional Child Tax Credit	\$342,663,759.60	296,985
Child Tax Credit	\$228,866,379.63	227,662
Total	\$1,588,381,225.23	

Source: Our analysis of IRS management information system containing all Tax Year 2011 tax returns filed as of May 3, 2012.

Other factors considered when preparing the scenarios and selecting the sites

During the 2010 Filing Season, it became apparent that various factors were influencing the accuracy rate.

- Volunteers had come to recognize the scenarios the auditors were using to have tax returns prepared.
- In prior years, one of the criteria for site selection was the volume of tax returns prepared at the sites and trending of sites previously visited. As such, high volume sites had a higher probability of being tested, which the volunteers had also come to recognize.
- The IRS was aware of our site visits. Because auditors were doing other tests at the sites after they had tax returns prepared, IRS employees were on site to conduct their own review after tax preparation.

⁸ See Appendix VIII for tables showing the general characteristics of tax returns prepared by the Volunteer Program.



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Therefore, beginning with the 2011 Filing Season, the scenarios were changed to show multiple sources of income from self-employment and private businesses. One scenario results in taxes owed instead of a tax refund. In addition, the criteria for site selection were changed; the volume of tax returns prepared at the sites is not one of the criteria. Site selection is based on audit resources, proximity of sites to major cities, and geographical location of the auditors. To expand testing to include sites never visited, we eliminated sites and most cities visited in prior audits. Finally, we no longer advise the IRS which sites are included in the testing, and IRS employees are not on site at any time on the day of the visits. The following are the three scenarios used by auditors during the 2012 Filing Season.

Scenario 1 – The taxpayer was single, had never been married, and lived with his or her sister. The taxpayer had one child/grandchild, age eight, who lived with the taxpayer in the home during the summer, approximately three months a year. The child lived with the mother/father during the school year, approximately nine months of the year. During Tax Year 2011, the taxpayer worked at a school as a teacher's aide, a home improvement store (was laid off), and at a local retail store. Total income reported on Forms W-2, *Wage and Tax Statement*, was \$17,034. The taxpayer received a Form 1099-INT, *Interest Income*, totaling \$7.35. The taxpayer spent \$350.00 for school supplies. The taxpayer won \$1,900 playing the slot machines over the 4th of July holiday (won on July 5); \$285 in Federal income tax was withheld from the winnings. The taxpayer also contributed \$500 to an Individual Retirement Arrangement (IRA).

An accurately prepared tax return would result in the taxpayer receiving a refund of \$178. The tax return preparer would have correctly determined that the taxpayer's filing status was Single. The taxpayer did not provide more than half the cost of keeping up a home for a qualifying child, and the taxpayer 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 the child did not live with the taxpayer for more than half of the year and the earned income exceeded the maximum allowable amount for a single taxpayer.

Scenario 2 – The taxpayer was divorced and lived with his or her nine-year-old child/grandchild. The taxpayer had wages reported on the 2011 Forms W-2 totaling \$29,232. The taxpayer was paid biweekly and contributed \$1,263 to a 401(k) retirement plan. The taxpayer received a 2011 Form 1099-INT totaling \$4.13, received \$300 a month for child support, and had dependent care expenses totaling \$1,370.

An accurately prepared tax return would result in the taxpayer receiving a refund of \$2,550. 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



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Credit of \$1,091, a Child Tax Credit of \$895, an Additional Child Tax Credit of \$105, a Child and Dependent Care Credit of \$370, and a Retirement Savings Contributions Credit of \$126.

Scenario 3 – The taxpayer was single with no dependents and shared an apartment with a friend. The taxpayer was employed at a home improvement center and had Form W-2 wages in the amount of \$18,435 for Tax Year 2011. The taxpayer was also self-employed and earned a total of \$17,800 and had expenses totaling \$4,812.

A correctly prepared tax return would result in the taxpayer owing \$3,380. The preparer would have correctly determined that the taxpayer's filing status was Single.

This was a follow-up audit to prior Treasury Inspector General for Tax Administration reviews.⁹ This review was performed at the SPEC function in the Wage and Investment Division in Atlanta, Georgia, during the period January through May 2012. In addition, from February through April 2012, Treasury Inspector General for Tax Administration auditors performed 40 anonymous visits and had 39 tax returns prepared at 40 judgmentally selected¹⁰ Volunteer Program sites located in 14 States. Three different sites were generally selected in each State, with one site selected in another State as a make-up visit. Appendix IV provides a list of the 14 States and the specific cities where the sites were located.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁹ See Appendix IX for a list of these prior reports.

¹⁰ A judgmental sample is a nonstatistical sample, the results of which cannot be used to project to the population.



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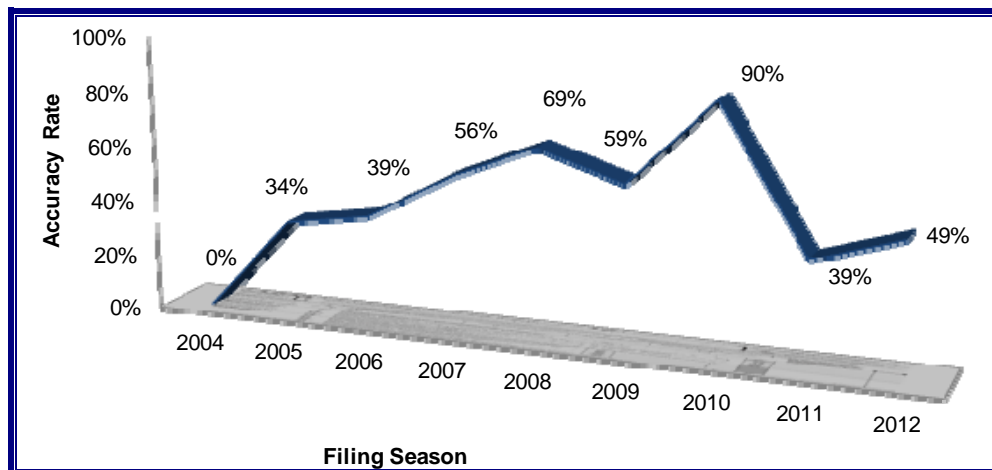
Results of Review

The Accuracy of Tax Returns Remains a Challenge for the Volunteer Program

The accuracy rates for tax returns prepared at Volunteer Program sites increased from the 2011 Filing Season. Of the 39 tax returns prepared for our auditors, 19 (49 percent) were prepared correctly and 20 (51 percent) were prepared incorrectly. The accuracy rate should not be projected to the entire population of tax returns prepared at the Volunteer Program sites. Nevertheless, if the 20 incorrect tax returns had been filed: 12 (60 percent) taxpayers would not have been refunded a total of \$3,996 to which they were entitled, one (5 percent) taxpayer would have received a refund of \$303 more than the amount to which he or she was entitled, one (5 percent) taxpayer would have owed \$165 less than the amount that should have been owed, and six (30 percent) taxpayers would have owed an additional total of \$1,483 in tax and/or penalties.

Figure 4 shows the accuracy rates of tax returns prepared for our auditors for the 2004 through 2012 Filing Seasons.

***Figure 4: Overall Tax Return Accuracy Rates
for the 2004–2012 Filing Seasons***



Source: Tax returns prepared for our auditors by volunteers during the 2004–2012 Filing Seasons.

During the 2012 Filing Season, tax returns were not always prepared correctly because volunteers did not obtain sufficient information to apply the tax law correctly. In addition,



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volunteers did not always follow all applicable guidelines when preparing returns. Lastly, when using Scenario 3, which if prepared correctly would have resulted in the taxpayer owing taxes, auditors expected the volunteers to educate the taxpayers on the estimated tax penalty, explaining that it would *not* be added to the tax return at this time, but the IRS would calculate the penalty for the taxpayer and send a bill, if applicable. Volunteer Program guidelines instruct volunteers not to calculate or impose the penalty. Volunteers did not follow all of these guidelines when preparing any of the 13 small business tax returns. However, only three (23 percent) of the 13 tax returns were counted as having penalty errors because in those three instances the volunteers incorrectly calculated the estimated tax penalty and entered it on the tax returns. Figure 5 shows the accuracy rate by scenario.

**Figure 5: Overall Tax Return Accuracy Rates
for the 2012 Filing Season**

Tax Scenario Used	Number of Tax Returns Prepared Using the Scenario	Accuracy Rate
Scenario 1	13	31%
Scenario 2	13	69%
Scenario 3	13	46%
Total Accuracy	39	49%

Source: Tax returns prepared for our auditors by volunteers during the 2012 Filing Season.

Three tax topics contributed to most of the errors

Of the 16 tax topics used in the three scenarios, all but three had accuracy rates of at least 75 percent. The accuracy rate for the Estimated Tax Penalty was 77 percent; for the Retirement Savers Contribution Credit, 78 percent; and for the Child Care and Dependent Care Credit, 83 percent. The accuracy rates for each of the remaining 10 tax topics were greater than 90 percent.¹¹ The accuracy rates for the following three tax topics contributed to the most errors and caused a significant decrease in the overall accuracy rate.

- **The accuracy rate for the Educator Expense deduction was 25 percent.** This deduction is available to eligible educators in public or private elementary or secondary schools. To be eligible, a person must work at least 900 hours during a school year as a teacher, instructor, counselor, principal, or aide. Educators may subtract up to \$250 of qualified expenses when figuring their Adjusted Gross Income. This deduction is available whether or not the taxpayer itemizes deductions on Form 1040, *U.S. Individual Income Tax Return*, Schedule A, *Itemized Deductions*. However, volunteers did not

¹¹ See Appendix V for a list of tax topics used in the scenarios and the accuracy rate for each topic.



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include the deduction on the auditors' tax returns because they did not completely review the Form 13614-C, *Intake/Interview and Quality Review Sheet*.

- **The accuracy rate for the IRA deduction was 50 percent.** Taxpayers can reduce taxable income by contributing money to a traditional IRA. Contributions to IRAs can be made as late as the first due date of a tax return and can be considered retroactive to the previous tax year. Contributions up to certain limits can be subtracted from Adjusted Gross Income. Volunteers did not include this deduction also because they did not completely review the Form 13614-C.
- **The accuracy rate for Schedule C expenses was 69 percent.** Taxpayers report income or loss from operating a business or practicing a profession as a sole proprietor. An activity qualifies as a business if the primary purpose for engaging in the activity is for income or profit and the taxpayer is involved in the activity with continuity and regularity. The volunteers did not interpret the tax law correctly in four instances.

Volunteers at three Volunteer Program sites denied auditors either a credit or deduction to which they were entitled

The deductions and credits to which the auditors were entitled were denied on four tax returns because the auditors did not provide receipts to support the Educator Expense deduction, the IRA deduction, or the Child and Dependent Care Credit. Three of these instances were not counted as errors when calculating the accuracy rates; the fourth had another deduction omitted and was counted as an error.

The IRS provides training in tax law and requires that all volunteers comply with certain standards of conduct—to maintain the highest standards of ethical conduct and to provide quality service. One of the standards is that volunteers must not knowingly prepare false returns.

Each volunteer must decide the extent to which due diligence must be exercised when assisting a taxpayer in the preparation of tax returns. There are no specific guidelines requiring that taxpayers provide receipts to volunteers to support the deductions or credits claimed on their prepared tax returns. The IRS does not require that taxpayers provide receipts when having tax returns prepared at the Taxpayer Assistance Centers. The IRS advises taxpayers to keep such records in case there is either a question about an item or an examination of the return. Additionally, the IRS has the means to systemically verify the IRA through its matching program, and the taxpayer must supply the Taxpayer Identifying Number of the provider for the Child and Dependent Care Credit. Ultimately, it is the taxpayer who is responsible for all items on the tax return.

When volunteers deny taxpayers a credit or deduction to which they are entitled, they will have to file an amended tax return to receive the proper credit or deduction.



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When a taxpayer is denied a credit or deduction to which he or she is entitled, the taxpayer will have to file an amended tax return to receive the proper credit or deduction. Amended tax returns can be complicated, and taxpayers may have to seek the services of a paid preparer. Additionally, amended tax returns cannot be electronically filed and the IRS will have to process a paper tax return, further delaying any tax refund.

Tax returns were prepared incorrectly because volunteers did not follow all guidelines

Quality service and accurate tax return preparation start with the volunteers asking taxpayers the right questions. A tax return is accurate when the tax law is applied correctly and the tax return is free from error based on the taxpayer's interview, his or her supporting documentation, and the completed IRS-approved Form 13614-C.

During our visits, 39 (100 percent) Forms 13614-C were prepared as required. However, only 30 (77 percent) of 39 volunteers thoroughly reviewed all of Form 13614-C *and* fully used it to prepare the tax returns. Of the nine (23 percent) tax returns prepared by volunteers who did not appropriately use Form 13614-C, five (56 percent) of the nine tax returns were prepared incorrectly. In addition, for the 39 sites visited:

- 12 (31 percent) volunteers did not verify the auditor's identity.
- 16 (41 percent) volunteers did not conduct an interview to verify the accuracy of the Form 13614-C.
- 28 (72 percent) volunteers did not explain that the taxpayer has the ultimate responsibility for the tax return.

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. The intake and interview process must include the following at a minimum:

- An interview with the taxpayer that includes explaining the tax return preparation process and encouraging him or her to ask questions throughout the interview process.
- Completion of Form 13614-C.
- Confirmation of the taxpayer's responses provided on the Form 13614-C.
- Use of probing questions to ensure that complete information is gathered.
- Review of all supporting documentation and confirmation with the taxpayer that all income was discussed and noted on the Form 13614-C to ensure that it will be included on the tax return.



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The SPEC function should continue to educate volunteers and employees to reinforce quality review guidelines.

The IRS has implemented an extensive quality review process, but it has limitations and may not be providing reliable results

The SPEC function has a substantial quality review 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. **Quality Statistical Sample (QSS) Reviews.** Starting with the 2009 Filing Season, the IRS began relying on trained tax specialists (QSS reviewers) to visit a statistically valid sample of Volunteer Program sites to review a random sample of tax returns for accuracy. During a QSS Review, QSS reviewers randomly select for review three tax returns that have not yet been signed by 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. It is from this review that the SPEC function determines and reports its accuracy rate. In Fiscal Year 2012, the SPEC function stopped notifying Volunteer Program sites in advance of QSS Reviews.
3. **Post Reviews of Selected QSS Reviews.** Using tax returns from QSS Reviews, analysts ensure 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 2012 Filing Season.
4. **Field Site Visits.** SPEC function Territory Offices¹² select a minimum of 15 percent of the Volunteer Program sites to conduct field site visits. During these visits, the Territory Office will cover a series of key issues that include (but are not limited to):
 - Fraud awareness and prevention.
 - Adherence to quality site requirements.
 - Site and data security.
 - Financial education and asset-building opportunities.
 - Key tax law issues.

¹² The SPEC function is divided geographically into four Area Offices and 36 Territory Offices. An Area Office is a geographic organization level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues. A Territory Office handles implementation of outreach and education efforts. Directors oversee the Area Offices and managers oversee the Territory Offices.



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During Calendar Year 2011, the SPEC function conducted more than 3,700 site visits and during Calendar Year 2012, as of April 21, 2012, more than 4,400 site visits.

5. **Anonymous Site Visits (Shopping).** SPEC shopping reviews are intended to gauge taxpayer experience and test tax law accuracy based on specific scenarios. Shopping reviews involve unannounced “mystery” shoppers posing as taxpayers using a predefined scenario to have their Federal tax returns prepared by Volunteer Program volunteers. The results of these reviews consist of comparing the tax returns prepared by the volunteers with the predetermined tax return. However, the results of the anonymous site visits are not used to measure the accuracy of returns prepared by the Volunteer Program.

QSS reviewers reviewed 337 tax returns, resulting in a 92 percent accuracy rate. However, unlike when auditors pose as taxpayers and visit volunteer tax preparation sites to have a tax return prepared, during the QSS Review, volunteers are aware that IRS staff are on site to review the tax returns they are preparing. Knowing the reviewer is on site introduces bias and could lead volunteers to be more quality conscious and more apt to adhere to quality processes than they would have been otherwise. Individuals improve or modify an aspect of their behavior simply in response to the fact that they are being studied. Consequently, the QSS reviewer may not be obtaining reliable results or a reliable perspective of the tax return preparation operations.

The IRS also conducted 53 anonymous shopping visits during the 2012 Filing Season. Volunteers prepared tax returns for SPEC function shoppers with a 60 percent accuracy rate. The sites selected were not part of a statistically valid sample and, therefore, were not representative of the accuracy rate for the entire Volunteer Program. However, SPEC function observations from the 2012 Filing Season shopping visits showed that:

The IRS conducted 53 anonymous shopping visits during the 2012 Filing Season, resulting in a 60 percent accuracy rate.

- Forms 13614-C are present at the site and are being used to some extent; however, there is evidence that volunteers are not conducting a thorough interview with the taxpayer.
- Quality reviews are being performed, but there are instances where: 1) the quality review was not conducted while the taxpayer was on site or 2) the quality review was not conducted by a certified volunteer.

Some volunteers are not following the quality review process guidelines

Since Fiscal Year 2004, the SPEC function and its volunteer organization/partners have worked to educate and train volunteers about the benefits of following quality assurance processes during the preparation of every tax return. For every tax return prepared, volunteers are required to ensure that there is an interview process to confirm a complete and accurate understanding of the taxpayer’s information and that each tax return is subjected to a quality review. Figure 6 presents a summary of the Volunteer Program quality review process requirements.



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Figure 6: Volunteer Program Quality Review Requirements

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

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

Source: VITA and TCE Quality Site Requirements – Changes for 2012.

For each of the 20 tax returns prepared incorrectly, elements of the requirements were not followed. For example:

- 7 (35 percent) incorrect tax returns were not quality reviewed.
- 7 (35 percent) quality reviewers did not refer to the entire Form 13614-C.
- 12 (60 percent) auditors were not involved in the quality review process.

The Quality of the Volunteer Program is dependent on volunteers

Partner organizations and their volunteers play a significant role in the IRS's tax return preparation program. The IRS has taken numerous actions to ensure the integrity of the volunteers. In Fiscal Year 2011, we reported that procedures needed to be strengthened to ensure the integrity of the volunteers and the security of taxpayer information.¹³ In response, the IRS took numerous actions. For example, the IRS:

- Revised Form 13615, *Volunteer Standards of Conduct*. The IRS added instructions stating that all volunteers must complete the required training, including ethics training, and sign the Form 13615 prior to working at a Volunteer Program site. It also emphasizes that the form is not valid until the volunteer's identity is confirmed. The prior audit had determined that most forms were not certified by the IRS or the volunteer partner as required. Form 13615 is required for all volunteers before working at a site.

¹³ 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).



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- Revised the Form 13614-C and the scripts for its toll-free telephone number, 1-877-330-1205, to: 1) advise taxpayers who are calling to inquire about their tax refunds how to obtain refund information using either the toll-free telephone line or IRS.gov, and 2) inform callers that their information is confidential and, although not required, leaving identifying information would allow the IRS to contact the taxpayer and/or follow up with him or her if more information is necessary.
- Reviewed the IRS fraud hotline procedures and guidelines to determine best practices that can be used to improve the Volunteer Program referral process. The IRS designed a control number for the 2012 Filing Season to better track and control contacts received through its internal and external referral processes. It created a Referral SharePoint site to house the call/e-mail log, and the log automatically assigns a control number to each of the entries. After an initial assessment of a referral, it is assigned to an analyst to resolve. Referrals must be acknowledged within a specified time limit.

The IRS is committed to improving the Volunteer Program and promoting the highest standards for the volunteers. The IRS has taken numerous actions to help ensure the integrity of the volunteers and has committed significant resources to increase the accuracy of tax returns prepared by volunteers. For the Volunteer Program to remain a significant part of the IRS's tax preparation program, the IRS must continue to ensure that all volunteers are properly trained and certified, and that they follow all guidelines and procedures.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Continue to emphasize to volunteers the necessity of reviewing Form 13614-C with taxpayers during tax return preparation to ensure tax returns are prepared accurately.

Management's Response: IRS management agreed with this recommendation. The IRS has updated Form 13614-C and will continue to emphasize training on proper intake and interview techniques.

Recommendation 2: Establish guidelines for recommended due diligence for volunteers when preparing tax returns.

Management's Response: IRS management agreed with this recommendation and will adjust its volunteer training and resource materials to clarify and underscore the due diligence obligations of volunteers when preparing tax returns.



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Volunteer Program Site Information Was Inaccurate

A judgmental sample of 137 Volunteer Program sites showed that information for 32 (23 percent) sites did not match the data in the SPEC Total Relationship Management System (SPECTRM) used to control Volunteer Program data. Figure 7 presents a summary of the site information that did not match the SPECTRM.

Figure 7: Site Information Inconsistent With the SPECTRM*

IRS Toll-Free Telephone	IRS.gov	Volunteer Program Site Telephone	AARP Telephone	AARP Website
5	8	22	1	4

*Source: Auditors' test of SPECTRM data as of February 24, 2012. *Sites may have not matched on more than one option.*

IRS guidelines require that volunteer partners complete Form 13715, *Volunteer Site Information Sheet*, to provide information on the site, such as site location, operating hours, and current services offered to assist taxpayers based on their specific needs. The site coordinator or partner is to complete the form and submit it to the IRS by January 15, 2012. Instead of completing forms, the AARP submits a data file to the IRS with AARP site information, which is then uploaded to the SPECTRM.

SPEC function Territory offices are responsible for ensuring all site information is entered in the SPECTRM timely and accurately. Information from the SPECTRM is then uploaded to the IRS's research program, which is used by toll-free telephone assistors and for populating IRS.gov.

Volunteer Program site errors are caused when the information provided to the IRS by the volunteer partners is not accurate or timely submitted or when IRS employees do not accurately or timely input the data into the SPECTRM. In addition, there were 22 incidents where inaccurate site information was provided by personnel who answered the sites' direct telephone number. This creates a burden for taxpayers who rely on the IRS to locate a Volunteer Program site, determine the hours a particular site is open, or determine what services a site might provide. We reported this concern in a Fiscal Year 2011 report; therefore, we are not making any recommendations.¹⁴

¹⁴ Treasury Inspector General for Tax Administration, Ref. No 2012-40-021, *The Volunteer Program Management Information System Has Improved, but Better Controls Are Needed to Ensure Data Reliability* (Feb. 2012).



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether taxpayers visiting IRS Volunteer Program sites receive quality service, including accurate tax returns. IRS 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. From a population of 12,486 sites, we selected a judgmental sample of 40 VITA/Co-Located VITA and TCE-AARP sites nationwide and attempted to have a tax return prepared. Three sites were selected in 13 States with one site selected in another State as a make-up visit.

Site selection was based on audit resources, proximity of sites to major cities, and geographical location of the auditors. In addition, to expand testing to include sites never tested, we also eliminated most cities and sites selected in prior audits. We could not select a statistical sample due to the volume of sites and geographical location of the sites that would need to be selected.

- II. Determined the characteristics of tax returns prepared at the Volunteer Program Sites. We assessed the reliability of the data by comparing the data to IRS filing season data.
- III. Assessed the accuracy of the SPEC function's listing of site locations, operating hours, telephone numbers, and other relevant information provided to taxpayers on IRS.gov.
- IV. Followed up on the IRS's response to the 2011 Filing Season report recommendations to ensure referrals reporting improper activities at Volunteer Program sites are properly documented, investigated, and resolved.

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 also conducted tests at Volunteer Program sites.



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Appendix II

Major Contributors to This Report

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Tina Fitzsimmons, Auditor
Ryan Powderly, Auditor
Mark Willoughby, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Senior Operations Advisor, Wage and Investment Division SE:W:S
Chief Counsel CC
National Taxpayer Advocate TA
Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PEI
Director, Stakeholder Partnerships, Education and Communication, Wage and Investment
Division SE:W:CAR:SPEC
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:PEI



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Appendix IV

Cities and States Visited to Have Tax Returns Prepared

Birmingham/Hoover/Jacksonville	Alabama
Commerce City/Denver/Lakewood	Colorado
Indianapolis/Zionsville	Indiana
New Orleans	Louisiana
Joplin/Kansas City	Missouri
Carson City/Reno	Nevada
Portsmouth	New Hampshire
Newark	New Jersey
Albuquerque	New Mexico
Gresham/Medford/Portland	Oregon
Aiken/Columbia/Winnsboro	South Carolina
Rutland/Westminster/White River Junction	Vermont
Hampton/Newport News	Virginia
Milwaukee/New Berlin/Racine	Wisconsin



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Appendix V

Accuracy Rate by Tax Topic

Tax Topic	Number of Tax Returns Using Tax Topic	Percentage Correct
Additional Child Tax Credit	13	100%
Child and Dependent Care Credit	12	83%
Child Tax Credit	13	100%
Earned Income Tax Credit	13	92%
Educator Expense	12	25%
Estimated Tax Penalty	13	77%
Exemptions	39	97%
Filing Status	39	97%
Gambling Winnings	13	100%
IRA Deduction	10	50%
Interest	26	92%
Retirement Savings Contribution Credit	23	78%
Schedule C Expenses	13	69%
Self-Employment Tax	13	100%
Standard Deduction	39	97%
Wage Income	39	97%

*Source: Analysis of tax returns prepared for auditors by volunteers during
the 2012 Filing Season.*



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Appendix VI

Intake/Interview and Quality Review Sheet

Form 13614-C (Rev. 10-2011)	Department of the Treasury – Internal Revenue Service Intake/Interview & Quality Review Sheet	OMB # 1545-1964
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Section A. You should complete Pages 1-3
Thank you for allowing us to prepare your tax return. **You are responsible for the information on your return so please provide complete and accurate information to the certified tax preparer.** If you have any questions please ask your preparer.

You will need your:

- Tax information such as Forms W-2, 1099, 1098.
- Social security cards or ITIN letters for you and all persons on your tax return.
- Proof of Identity (such as a valid drivers license or other government issued picture ID).

Part I. Your Personal Information

1. Your First Name	M. I.	Last Name	Are you a U.S. Citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No
2. Spouse's First Name	M. I.	Last Name	Is spouse a U.S. Citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No
3. Mailing Address	Apt#	City	State Zip Code
4. Contact Information Phone:		Cell Phone:	E-mail:
5. Your Date of Birth	6. Your Job Title	Are you:	7. Legally Blind <input type="checkbox"/> Yes <input type="checkbox"/> No
		8. Totally and Permanently Disabled	<input type="checkbox"/> Yes <input type="checkbox"/> No
9. Spouse's Date of Birth	10. Spouse's Job Title	Is Spouse:	11. Legally Blind <input type="checkbox"/> Yes <input type="checkbox"/> No
		12. Totally and Permanently Disabled	<input type="checkbox"/> Yes <input type="checkbox"/> No
13. Can anyone claim you or your spouse on their tax return? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unsure			

Part II. Marital Status and Household Information

1. As of December 31, 2011, were you?
 Single
 Married: Did you live with your spouse during any part of the last six months of 2011? Yes No
 Divorced or Legally Separated: Date of final decree or separate maintenance agreement: _____
 Widowed: Year of spouse's death: _____

2. List names below of everyone who lived in your home in 2011 (other than you or spouse). Also list anyone who lived outside of your home that you supported during 2011. If additional space is needed please check here and list on page 3.

Name (first, last) Do not enter your name or spouse's name below.	Date of Birth (mm/dd/yy)	Relationship to you (e.g. daughter, son, mother, sister, none)	Number of months lived in your home in 2011	US Citizen or resident of the US, Canada or Mexico in 2011 (yes/no)	Marital Status as of 12/31/11 (S/M)	Full-time student in 2011 (yes/no)	Received less than \$3700 income in 2011 (yes/no)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)

- **Volunteers assisting with preparing your return are trained to provide high quality service and uphold the highest ethical standards.**
- To report unethical behavior to IRS, email us at wi.voltax@irs.gov or call toll free 1-877-330-1205.

To check the status of your REFUND visit "Where's My Refund?" on www.irs.gov or call 1-800-829-1954 for assistance.



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Section A. Please complete – check Yes, No or Unsure to all questions below. Please ask if you need help.

Part III. Income – In 2011, did you (or your spouse) receive:

Yes	No	Unsure	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. Wages or Salary? (Form W-2)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. Tip Income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. Alimony Income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. Self-Employment payments (such as cash received for services, small business)? (Form 1099-MISC)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. Income (or loss) from the sale of Stocks, Bonds or Real Estate (including your home)? (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. Disability Income (such as payments from insurance or workers compensation)? (Forms 1099-R, W-2)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. Distributions from Pensions, Annuities, and/or IRA? (Form 1099-R)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. Unemployment Compensation? (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13. Income (or loss) from Rental Property?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14. Other Income: (gambling, lottery, prizes, awards, jury duty, etc.) Specify: _____ (Forms W-2 G, 1099-MISC)

Part IV. Expenses – In 2011 Did you (or your spouse) pay:

Yes	No	Unsure	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. Alimony: If yes, do you have the recipient's SSN? <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. Contributions to a retirement account? <input type="checkbox"/> IRA <input type="checkbox"/> Roth IRA <input type="checkbox"/> 401K <input type="checkbox"/> Other
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. Educational expenses paid for yourself, spouse or dependents, such as tuitions, books, fees, etc.? (Form 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. Unreimbursed employee business expenses (such as teacher supplies, uniforms or mileage)?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. Medical expenses (including health insurance premiums)?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. Home mortgage interest? (Form 1098)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. Charitable contributions?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. Child/dependent care expenses, such as day-care?

Part V. Life Events – In 2011 Did you (or your spouse):

Yes	No	Unsure	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. Have a Health Savings Account? (Forms 5498-SA, 1099-A, W-2 with code W in Box 12)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. Have debt from a mortgage or credit card canceled/forgiven by a commercial lender? (Form 1099-C)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. Buy, sell or have a foreclosure of your home? (Form 1099-A)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? _____
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. Purchase and install energy efficient home items (such as windows, furnace, insulation, etc.)?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. Live in an area that was affected by a natural disaster? If yes, where? _____
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. Receive the First Time Homebuyers Credit in 2008?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. Pay any student loan interest? (Form 1098-E)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. Make estimated tax payments or apply last year's refund to your 2011 tax? If so how much? _____
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. Attend school as a full time student? (Form 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. Adopt a child?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. File a 2010 federal tax return containing a "capital loss carryover" on Form 1040 Schedule D?

Presidential Election Campaign Fund: (If you check a box, your tax or refund will not change.)

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

Catalog Number 52121E

Form **13614-C** (Rev. 10-2011)

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Section B. For Certified Volunteer Preparer Completion	Section C. For Certified Quality Reviewer Completion
<p>Remember: You are the link between the taxpayer's information and a correct tax return. Verify the taxpayer's information on pages 1, 2 & 3 is complete. All questions must be discussed with the taxpayer and all "Unsure" responses should be changed to "Yes" or "No".</p> <p>Must be completed by Certified Volunteer only if persons are listed in Part II Question 2</p> <p>Check if persons are listed in Part II Question 2 <input type="checkbox"/></p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No 1. Can anyone else claim any of the persons listed in Part II, Question 2, as a dependent on their return? If yes, which ones:</p> <p>_____</p> <p>_____</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No 2. Were any of the persons listed in Part II, Question 2, totally and permanently disabled? If yes, which ones:</p> <p>_____</p> <p>_____</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No 3. Did any of the persons listed in Part II, Question 2 provide more than 50% of their own support? If yes, which ones:</p> <p>_____</p> <p>_____</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A 4. Did the taxpayer provide more than half the support for any of the persons in Part II, Question 2? If yes, which ones:</p> <p>_____</p> <p>_____</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No 5. Did the taxpayer pay over half the cost of maintaining a home for any of the persons in Part II, Question 2? If yes, which ones:</p> <p>_____</p> <p>_____</p> <p>Reminders Use Publication 4012, <i>Volunteer Resource Guide</i> and Publication 17, <i>Your Federal Income Tax</i> in making tax law determinations.</p>	<p>Confirm each item after reviewing the tax return and verifying that it reflects correct tax law application to the information provided by the taxpayer.</p> <p>1. Sections A & B of this form are complete.</p> <p>2. Taxpayer's identity, address and phone numbers were verified.</p> <p>3. Names, SSNs, ITINs or EINs, and dates of birth of taxpayer, spouse and dependents match the supporting documents.</p> <p>4. Filing Status is correctly determined.</p> <p>5. Personal and Dependency Exemptions are entered correctly on the return.</p> <p>6. All information shown on source documents and noted in Section A, Part III is included on the tax return.</p> <p>7. Any Adjustments to Income are correctly reported.</p> <p>8. Standard, Additional or Itemized Deductions are correct.</p> <p>9. All credits are correctly reported.</p> <p>10. Withholding shown on Forms W-2, 1099 and Estimated Tax Payments are correctly reported.</p> <p><input type="checkbox"/> All tax law issues above have been addressed and necessary changes have been made.</p> <p><input type="checkbox"/> If direct deposit or debit was elected, checking/saving account and routing information match the supporting documents.</p> <p><input type="checkbox"/> Correct SIDN and EFIN are shown on the return.</p>
<p>Additional Tax Preparer Notes:</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>	



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Appendix VII

*Volunteer Standards of Conduct
Agreement – VITA/TCE Programs*

Form 13615 (Rev. 1-2012)	Department of the Treasury – Internal Revenue Service Volunteer Standards of Conduct Agreement – VITA/TCE Programs	Cat. No. 38847H
------------------------------------	---	-----------------

The mission of the VITA/TCE return preparation programs is to assist eligible taxpayers in satisfying their tax responsibilities by providing **free** tax return preparation. To establish the greatest degree of public trust, volunteers are required to maintain the highest standards of ethical conduct and provide quality service.

Instructions: All VITA/TCE volunteers (whether paid or unpaid workers) must complete the *Volunteer Standards of Conduct Training* and sign *Form 13615, Volunteer Standards of Conduct Agreement* prior to working at a VITA/TCE site. In addition, return preparers, quality reviewers, and VITA/TCE tax law instructors must certify in tax law prior to signing this form. This form is not valid until the site coordinator, sponsoring partner, instructor, or IRS contact confirms the volunteer's identity and signs the form.

Standards of Conduct: As a volunteer in the VITA/TCE Programs, you must:

- | | |
|---|--|
| <ol style="list-style-type: none"> 1) Follow the Quality Site Requirements (QSR). 2) Not accept payment or solicit donations for federal or state tax return preparation. 3) Not solicit business from taxpayers you assist or use the knowledge you gained (their information) about them for any direct or indirect personal benefit for you or any other specific individual. | <ol style="list-style-type: none"> 4) Not knowingly prepare false returns. 5) Not engage in criminal, infamous, dishonest, notoriously disgraceful conduct, or any other conduct deemed to have a negative effect on the VITA/TCE Programs. 6) Treat all taxpayers in a professional, courteous, and respectful manner. |
|---|--|

Failure to comply with these standards could result in, but is not limited to, the following:

- Your removal from all VITA/TCE programs and designation on the IRS volunteer registry to bar future work;
- Deactivation of your sponsoring partner's site VITA/TCE EFIN (electronic filing ID number);
- Removal of all IRS products, supplies, loaned equipment, and taxpayer information from your site;
- Termination of your sponsoring organization's partnership with the IRS;
- Termination of grant funds from the IRS to your sponsoring partner; and
- Referral of your conduct for potential TIGTA and criminal investigations.

Taxpayer Impact: Taxpayer trust in the IRS and the local sponsoring partner organization is jeopardized when ethical standards are not followed. Fraudulent returns that report incorrect income, credits, or deductions can result in many years of interaction with the IRS as the taxpayer tries to pay the additional tax plus interest and penalties. This can result in an extreme burden for the taxpayer as the taxpayer tries to resolve the errors made on his or her return.

Volunteer Protection: The Volunteer Protection Act generally protects unpaid volunteers from liability for acts or omissions that occur while acting within the scope of their responsibilities at the time of the act or omission. It provides no protection for harm caused by willful or criminal misconduct, gross negligence, reckless misconduct, or a conscious, flagrant indifference to the rights or safety of the individual harmed by the volunteer.

For additional information on the volunteer standards of conduct, please refer to *Publication 4299, Privacy, Confidentiality, & the Volunteer Standards of Conduct – A Public Trust*.



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Volunteer:

By signing this form, I declare that I have completed Volunteer Standards of Conduct Training and have read, understood, and will comply with the volunteer standards of conduct.

Print full name	Volunteer position(s)
Home street address: city, state and ZIP code	
E-mail address	Daytime telephone
Sponsoring partner name/site name	Number of years volunteered (including this year)
Volunteer signature	Date

Privacy Act Notice—The Privacy Act of 1974 requires that when we ask for information we tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory.

Our legal right to ask for information is 5 U.S.C. 301. We are asking for this information to assist us in contacting you relative to your interest and/or participation in the IRS volunteer income tax preparation and outreach programs. The information you provide may be furnished to others who coordinate activities and staffing at volunteer return preparation sites or outreach activities. The information may also be used to establish effective controls, send correspondence and recognize volunteers. Your response is voluntary. However, if you do not provide the requested information, the IRS may not be able to use your assistance in these programs. Please note: Sponsoring organizations may perform background checks on their volunteers.

(Partner Use Only)

Site Coordinator, Sponsoring Partner, Instructor or IRS:

By signing this form, I declare that I have verified the required certifications and proper identification for this volunteer prior to allowing the volunteer to work at the VITA/TCE site.

Volunteer Certification Levels

	Standards of Conduct (Required for ALL)	Basic	Intermediate	Advanced	Military	Inter-national	COD	HSA	Foreign Students		
									1	2	3
Certification Test											
Add the letter "P" for all passing test scores											

Print approving official's name and title:
(site coordinator, sponsoring partner, instructor, etc.)

Approving official's signature and date:



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Appendix VIII

*General Characteristics of Tax Returns
Prepared by the Volunteer Program¹
During Calendar Year 2012*

Type of Tax Return	Volume	of Total
U.S. Individual Income Tax Return (Form 1040)	2,885,238	96.8%
U.S. Individual Income Tax Return (Form 1040A)	47,035	1.58%
Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ)	43,460	1.22%
U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents (Form 1040NR-EZ)	7,748	0.26%
U.S. Individual Income Tax Return (PC) (Form 1040PC)	3,377	0.11%
U.S. Nonresident Alien Income Tax Return (Form 1040NR)	429	0.01%
U.S. Self-Employment Tax Return – Virgin Islands, Guam, American Samoa (Form 1040-SS)	290	0.01%
U.S. Self-Employment Tax Return – Puerto Rico (Form 1040-PR)	7	<0.01%

Refund Due/ Balance Due	Dollar Totals	Tax Return Volume	Percentage of Tax Return Volume
Refund Due	\$3,789,900,016	2,401,165	80.56%
Balance Due	\$286,575,286	301,264	10.11%
Breakeven	\$0	278,155	9.33%

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



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Remains a Problem for the Volunteer Program*

Filing Status/Dependent Claims	Tax Return Volume	Percentage of Totals
Single	1,758,774	59.01%
Married Filing Jointly	813,985	27.31%
Head of Household	357,380	11.99%
Married Filing Separately and Spouse Is Required to File	48,854	1.64%
Widow(er) with Dependent Child	1,500	0.05%
Married Filing Separately and Spouse Is Not Required to File	91	<0.01%
Tax Return Prepared With One or More Dependent Exemptions, Including Parents	641,161	21.51%
Tax Return Prepared With No Dependent Exemptions	2,339,423	78.49%

Credits Claimed	Tax Return Volume	Dollar Totals
Earned Income Tax*	683,206	\$1,016,851,086
Child Tax*	227,662	\$228,866,380
Additional Child Tax*	296,985	\$342,663,760
Retirement Savings Contributions*	191,109	\$33,189,121
Education	133,865	\$98,973,917
Child and Dependent Care*	48,266	\$23,571,586
Other (Adoption, Gas, and Health Coverage)	618	\$551,660

* = This credit was included in our test scenarios.

Income	Tax Return Volume	Dollar Amounts
Average Income ²	2,963,245	\$23,766
Other Income ³	137,507	\$409,603,105

Source: Our analysis of tax returns prepared at the Volunteer Program sites during Calendar Year 2011 as of May 19, 2011.

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

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



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Appendix IX

*Treasury Inspector General for Tax Administration
Audit Reports on the Volunteer Tax Return
Preparation Program*

Treasury Inspector General for Tax Administration, Ref. No 2004-40-154, *Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites* (Aug. 2004).

Treasury Inspector General for Tax Administration, Ref. No 2006-40-004, *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* (Nov. 2005).

Treasury Inspector General for Tax Administration, Ref. No 2006-40-125, *Oversight and Accuracy of Tax Returns Continue to Be Problems for the Volunteer Income Tax Assistance Program* (Aug. 2006).

Treasury Inspector General for Tax Administration, Ref. No 2007-40-137, *Accuracy of Volunteer Tax Returns Is Improving, but Procedures Are Often Not Followed* (Aug. 2007).

Treasury Inspector General for Tax Administration, Ref. No 2008-40-177, *Accuracy of Volunteer Tax Returns Continues to Improve, but Better Controls Are Needed to Ensure Consistent Application of Procedures and Processes* (Sept. 2008).

Treasury Inspector General for Tax Administration, Ref. No 2009-40-128, *Ensuring the Quality Assurance Processes Are Consistently Followed Remains a Significant Challenge for the Volunteer Program* (Sept. 2009).

Treasury Inspector General for Tax Administration, Ref. No 2010-40-109, *Improvements to the Volunteer Program Are Producing Positive Results, but Further Improvements Are Needed to the Quality Assurance Process* (Sept. 2010).

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).



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Appendix X

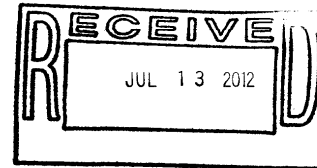
Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

JUL 12 2012



MEMORANDUM FOR MICHAEL E. MCKENNEY
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Peggy Bogadi *Peggy Bogadi*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Ensuring the Quality Review Process Is
Consistently Followed Remains a Problem for the Volunteer
Program (Audit # 201240002)

A fundamental objective of the IRS is to promote voluntary participation within the tax system. The volunteer programs sponsored by the IRS help achieve that objective by providing tax return preparation and electronic filing services at no cost to those segments of the population most in need. During the 2012 Filing Season, over 98,000 volunteers assisted more than 3.2 million individuals with the preparation and filing of Federal and State income tax returns. By leveraging the relationships we have built and fostered with our more than 4,000 partner organizations, services were provided to low-to moderate-income, elderly, disabled, and limited-English-proficient taxpayers to help them comply with their filing obligations. Providing this level of service would be cost prohibitive were it not for the efforts of our partnering organizations and volunteers.

The volunteer program is comprised of the Volunteer Income Tax Assistance (VITA) Program and the Tax Counseling for the Elderly (TCE) Program. The VITA Grant Program, a component of VITA, provides funding to qualifying VITA partners each year for purposes of increasing the capacity to file electronic returns and to enhance volunteer training. The TCE program is also supported through a grant process to ensure the provision of quality tax assistance to individuals 60 years of age and over.

The quality of service provided to taxpayers and the accuracy of income tax returns prepared at volunteer locations is of utmost importance to us. Volunteers are provided with a quality checklist, Form 13614-C, *Intake/Interview and Quality Review Sheet*, to be used for each taxpayer assisted. The purpose of the form is to ensure complete and accurate information is secured prior to the preparation of tax returns. A 100 percent review of each return is performed at volunteer locations to ensure the quality checklist is used and the returns are accurately prepared. The levels of service and accuracy



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provided by volunteer sites are continually evaluated through statistical sampling of completed returns by IRS personnel, both during and after the filing season. Further, announced field site visits and anonymous shopping visits are performed by IRS personnel to evaluate the services provided at volunteer locations.

Based on our observations during quality reviews, as well as those of the Treasury Inspector General for Tax Administration (TIGTA), we have made revisions to Form 13614-C to address areas where improvements can be made to support the preparation of accurate tax returns. We concur with the TIGTA's assessment of the results of returns prepared during shopping visits by the auditors; however, we believe the accuracy rate of 49 percent is understated. As TIGTA stated in its report, the accuracy rate should not be projected to the entire population of tax returns prepared at the Volunteer Program sites. One of the top three errors that significantly affected the TIGTA's accuracy rate is typically encountered in only one percent of the returns prepared at volunteer sites. Nevertheless, we are committed to ensuring volunteers provide quality service to all taxpayers and will take appropriate steps to reinforce our expectation that volunteers are accurately trained and follow the requisite due diligence standards when preparing tax returns.

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

Attachment



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Attachment

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1

Continue to emphasize to volunteers the necessity of reviewing Form 13614-C with taxpayers during tax return preparation to ensure tax returns are prepared accurately.

CORRECTIVE ACTION

We agree with this recommendation. We have updated Form 13614-C, Intake/Interview and Quality Review Sheet, and will continue to emphasize training on proper intake and interview techniques.

IMPLEMENTATION DATE

Implemented and Ongoing

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 2

Establish guidelines for recommended due diligence for volunteers when preparing tax returns.

CORRECTIVE ACTION

We agree with this recommendation and will adjust our volunteer training and resource materials to clarify and underscore the due diligence obligations of volunteers when preparing tax returns.

IMPLEMENTATION DATE

February 15, 2013

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

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