



## Treasury Inspector General for Tax Administration Office of Audit

### ACCURACY OF VOLUNTEER TAX RETURNS CONTINUES TO IMPROVE, BUT BETTER CONTROLS ARE NEEDED TO ENSURE CONSISTENT APPLICATION OF PROCEDURES AND PROCESSES

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## Highlights

Highlights of Report Number: 2008-40-177 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) Volunteer Program plays an increasingly important role in achieving the IRS' goal of improving taxpayer service and facilitating participation in the tax system. Although accuracy rates for tax returns prepared by volunteers have increased from those in prior years, the quality assurance process is still not consistently followed. Incorrectly prepared tax returns can increase the risk of taxpayers receiving erroneous tax refunds. To ensure continued success in the Volunteer Program, the IRS must continue to focus on improving the quality of the tax return preparation process.

### WHY TIGTA DID THE AUDIT

This audit was a followup to prior TIGTA reviews to determine whether taxpayers receive quality service, including the accurate preparation of their income tax returns, when visiting IRS Volunteer Program sites. The Volunteer Program provides no-cost Federal tax return preparation and electronic filing directed toward underserved segments of individual taxpayers, including low-income to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. This review included tax returns prepared at community-based Volunteer Income Tax Assistance sites and Tax Counseling for the Elderly sites sponsored by the AARP. Some of the IRS Volunteer Program sites offer Refund Anticipation Loans (RAL or Loan) as a low-cost option to traditional RALs. A RAL is a short-term loan provided to a taxpayer in anticipation of his or her current year Federal income tax refund.

### WHAT TIGTA FOUND

Accuracy rates for tax returns continue to increase. Improvements have been made to the oversight of the Volunteer Program. However, to ensure sustained

success in the Volunteer Program, the IRS must continue to focus on improving the quality of the tax return preparation process. Of the 36 tax returns prepared for TIGTA auditors by 36 volunteer sites during the 2008 Filing Season, 11 were prepared incorrectly. Since the 2004 Filing Season, TIGTA has reported that volunteers are not following required procedures. This year, some volunteers did not consistently use the required intake and interview process or perform a quality review to ensure that accurate tax returns were prepared.

Improvements are also needed to the Return Reviews used to monitor Program effectiveness because quality review procedures were not consistently followed. TIGTA's review of 91 Return Review cases showed that 43 (47 percent) had missing or illegible documents.

Some volunteer sites offer RALs. However, there is little oversight for these Loans, and the IRS could not provide the number of Volunteer Program sites that offer RALs.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS 1) require that the Return Review process be well documented, 2) ensure that all Volunteer Agreement Standards of Conduct are signed and dated, 3) include a question to determine whether the applicant has been convicted of a crime, 4) document whether IRS Volunteer Program sites will be offering RALs, 5) ensure that volunteers are able to input the RAL indicator when transmitting tax returns, and 6) include a review of RALs in Volunteer Program site visits.

IRS officials agreed with four of the six recommendations and partially agreed with one (Recommendation 3). The IRS plans to implement a Centralized Return Review Cadre during the 2009 Filing Season, discuss the issue of revising the Volunteer Agreement Standards of Conduct with its partners, and add a question to the Sponsor Agreement to identify other products being offered by volunteer sites. The IRS plans to monitor preparers offering RALs, including volunteer preparers, to ensure their compliance with its regulations and procedures.

The IRS disagreed with Recommendation 5 for a variety of procedural and other issues. TIGTA agrees that the IRS needs to consider the additional costs and investigate further before making a final determination. Although the IRS agreed with Recommendation 6, it stated that overseeing the volunteers offering RALs would be accomplished within the parameters of an existing IRS program. TIGTA will follow up during the 2009 Filing Season audit of the Volunteer Program.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200840177fr.pdf>.

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