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Report to the Commissioner
Internal Revenue Service

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FINANCIAL MANAGEMENT

Important IRS Revenue Information Is Unavailable or Unreliable

GAO

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-254312

December 21, 1993

The Honorable Margaret Milner Richardson
Commissioner
Internal Revenue Service

Dear Ms. Richardson:

This report presents the results of our review of the Internal Revenue Service's (IRS) internal controls over revenue. We conducted this review as part of our financial statement audit of IRS pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576).

This report contains recommendations to you. As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this report. A written statement also must be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs; the Senate Committee on Finance; the House Committee on Government Operations; the House Committee on Ways and Means; the Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations; the Subcommittee on Oversight, House Committee on Ways and Means; and the Joint Committee on Taxation. We are also sending copies to the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. Copies will be made available to others upon request.

This report was prepared under the direction of Gregory M. Holloway, Associate Director, Civil Audits, who may be reached on (202) 512-9510, if you or your staff have any questions. Other major contributors to this report are listed in appendix II.

Sincerely yours,

Donald H. Chapin

Donald H. Chapin
Assistant Comptroller General

Executive Summary

Purpose

As the nation's primary tax collector, the Internal Revenue Service (IRS) reported approximately $1.1 trillion in tax revenues for fiscal year 1992. This report discusses deficiencies and internal control weaknesses in the systems that account for this revenue. GAO identified these deficiencies and weaknesses during its audit of IRS' fiscal year 1992 financial statements. IRS is 1 of 10 federal agencies required to prepare financial statements and have them audited by June 30, 1993, as a pilot project under the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). This report does not address the potential tax revenues that are not identified and assessed by IRS, commonly referred to as the "tax gap," or the impact of tax policies on revenue, often referred to as "tax expenditures."

Background

As a bureau of the Department of the Treasury, IRS obtains and records a wide array of information about tax revenues. Although most tax remittances are made directly to Treasury through financial institutions, IRS receives the related payment data from the payers and is responsible for maintaining records of both tax assessments, based primarily on tax returns, and taxes collected. Historically, IRS has maintained this information principally to support its collection activities. IRS provides revenue information to a variety of external users, including the Office of Management and Budget, other agencies and Treasury offices, and congressional committees, where it is available for use in a variety of analyses, such as those related to tax policies and budget deliberations.

Results in Brief

Because IRS cannot provide detailed information on the amount of excise and social security taxes actually collected, (1) the trust funds that are financed by excise taxes received excess distributions from the general revenue fund which may have totaled several billion dollars and (2) subsidies to the social security trust fund cannot be precisely determined. Total excise tax distributions to excise tax trust funds exceed collections because distribution of these taxes is based on tax assessments which exceed related collections. Social security tax distributions, which by law are to be based on earnings, generally exceed social security taxes collected. Also, the agencies that manage programs that depend on trust fund revenues have little information to (1) verify that the distributions their funds receive are correct and (2) assist in tax enforcement efforts.

Additionally, GAO identified fundamental deficiencies in IRS' ability to analyze and summarize its revenue-related records. For example, several amounts in IRS' financial statements and its reports to Treasury have been significantly misstated because IRS does not analyze transactions in process to determine how they should be reported. As of September 30, 1992, such transactions exceeded $150 billion. Also, IRS' systems cannot retrieve the detailed information needed to summarize individual types of transactions, such as penalties or interest, or support the information included in IRS' reports. These deficiencies affect the reliability of information on actual collections reported (1) routinely to Treasury and in the President's annual budget submission to the Congress and (2) on an ad hoc basis to congressional committees, the media, and others. To address these problems, IRS is expanding the role of its Chief Financial Officer and is either studying, planning, or implementing various improvements to its systems and processes. However, many of these efforts have either not yet been defined or are not expected to be completed until well past the year 2000.

Principal Findings

Information Needed to Distribute and Manage Trust Fund Revenues Is Not Adequate

Although IRS accounts for specific types of taxes assessed, it does not obtain and account for payment information in enough detail to determine specific taxes collected. Payment information for some types of taxes is combined so that the amounts collected for specific taxes cannot be determined. For example, social security and individual income taxes withheld from employees are combined into one category, as are about 50 different excise taxes. When amounts paid differ from amounts owed, IRS does not allocate the difference among the specific taxes assessed. As a result, excise taxes that by law are to be distributed to various trust funds on the basis of actual collections are instead distributed on the basis of tax assessments. Since all assessed taxes are not collected, total assessments exceed collections, effectively resulting in subsidies from the general revenue fund to the excise tax trust funds. The difference between collections and assessments and thus the amount of the subsidies cannot be precisely determined. However, the difference between IRS' records of total excise taxes distributed and collected indicate that, over the past several years, the subsidies may have totaled several billion dollars.

Similarly, IRS cannot precisely determine subsidies provided to the social security trust fund, because it also does not separately account for the specific amount of social security taxes collected. The Social Security Act specifies that social security taxes, unlike excise taxes, be distributed based on earnings. Tax amounts owed are also based on earnings. Like most taxes, amounts owed, for various reasons, are not always paid. This results in social security tax distributions generally exceeding amounts collected. Reliable information on the general revenue fund subsidy to the social security trust fund would be useful to congressional committees and others who oversee social security funding and are interested in the program's financial condition.

Further, trust fund recipients receive little or no information relating to tax revenues. IRS is precluded by law from providing some of this revenue information to some agencies. Officials from four agencies that manage programs that depend on excise tax trust fund revenues told GAO that they receive virtually no information that would allow them to determine if the distributions they receive are correct, anticipate adjustments, or adequately report on their funds' revenue related accounts. Some agencies' experiences illustrate how having information on revenues would allow them to assist IRS and better manage their programs. For example, officials responsible for managing the Unemployment Tax Trust Fund told GAO that they were surprised by $1 billion reductions in both 1989 and 1992, which were made to correct previous years' revenue distributions. Also, the Railroad Retirement Board, which has specific authority to receive taxpayer information, identified two instances in which Treasury failed to credit a total of $154 million in taxes to railroad retirement trust funds.

Reported Revenue Information Is Unreliable

GAO was able to determine that IRS' total reported revenues of about $1.1 trillion were collected and deposited into Treasury accounts. However, much of the financial management information that IRS reports is not reliable because (1) IRS' systems are not designed to generate the needed information, (2) IRS does not adequately analyze its accounts to determine what should be reported and how it should be classified, and (3) controls do not ensure that the underlying data are accurate. As a result, GAO found that IRS reports had (1) omitted or misclassified over $150 billion in transactions related to documents being processed or amounts pending investigation and resolution, (2) overstated tax distributions by $113 billion in the financial statement supplemental information by not reducing collections for refunds, and (3) reported excise tax assessments for the 12-month period ending June 30, 1992, rather than for September 30, 1992, as reported. An underlying cause of these errors was that IRS had not completely identified information needed to develop its reports and did not have reliable sources for such information.

Further, IRS' systems are not designed to readily extract detailed supporting information. IRS' revenue accounting system is not programmed to generate a computer file or listing of the detailed transactions, such as assessments, collections, abatements, refunds, and interest, recorded during the year. Without a complete file or listing of transactions supporting these balances, GAO was not able to perform audit procedures it considered necessary. IRS is developing computer programs to provide this information for the fiscal year 1993 audit. Such information would be useful to IRS in managing its enforcement activities.

Unreliable revenue information also results from inaccurate underlying data. For example, IRS did not (1) properly calculate interest on certain types of accounts receivable, primarily because IRS had not implemented computer programs to routinely perform the required calculations, (2) consistently review certain manual accounting entries, which adjust revenue, to help prevent erroneous or unauthorized entries, and (3) match income and withholding reports promptly. Unreliable information could result in unecessary losses of tax revenue.

IRS is planning to improve the system it uses to account for and report on tax revenue primarily as part of its long-term Tax Systems Modernization effort. However, these efforts have either not yet been defined or are not expected to be complete until well into the next decade.

In accordance with the CFO Act and to improve the reliability of its revenue information, IRS intends to provide its CFO a larger role in overseeing revenue-related operations and reporting policies. Currently, a team of IRS officials is studying IRS' financial management functions in order to clarify the CFO's role.

Recommendations

To enhance the accuracy and usefulness of its financial management information on tax revenues, GAO is recommending that IRS (1) develop a means of capturing information on the specific taxes collected for trust funds so that the difference between amounts assessed and amounts collected is readily determinable and tax receipts can be distributed as required by law, (2) determine the trust fund revenue information needs of other agencies and provide such information, as appropriate, and (3) identify the information needed for revenue reporting and related sources and develop written policies and procedures for compiling this information.

Agency Comments

In written comments on a draft of this report, IRS generally agreed with GAO's findings and recommendations. IRS stated that the report contained many recommendations that will require a hard look at the way the Service receives and maintains revenue-related data. Also, IRS stated that many of the recommendations cannot be addressed by IRS without coordination with outside agencies or legislative change.

IRS indicated its willingness to work with GAO in the effort to improve federal financial management.

Contents

Abbreviations

MCC	Martinsburg Computing Center
FTD	Federal Tax Deposit
CFO	Chief Financial Officer
IRS	Internal Revenue Service
OMB	Office of Management and Budget
SSA	Social Security Administration
TSM	Tax Systems Modernization

Introduction

The Internal Revenue Service (IRS), a bureau of the Department of the Treasury, is responsible for collecting and accounting for the majority of federal revenues. For fiscal year 1992, IRS reported collections of about $1.1 trillion. This compares to $20 billion collected by the U.S. Customs Service, the second largest source of revenue for the federal government.

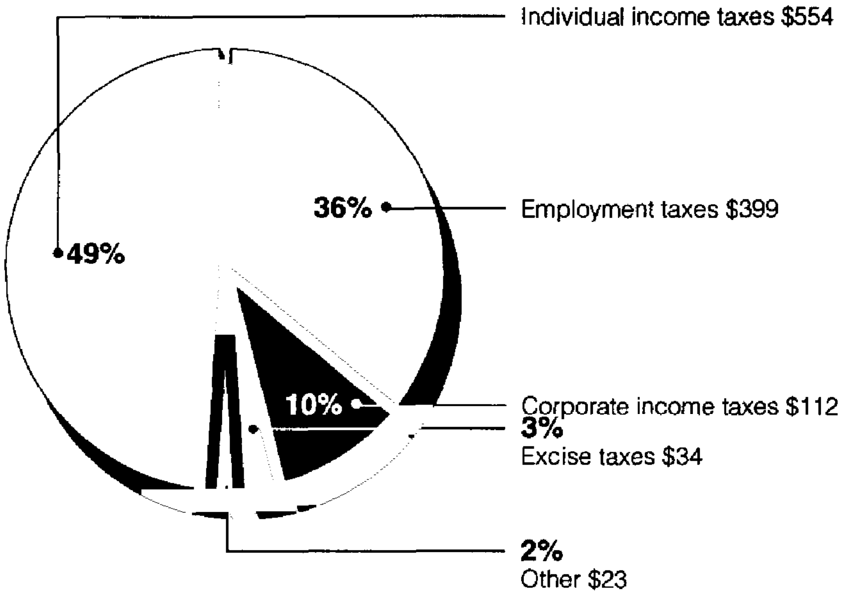
This report presents the results of our review of IRS' financial management systems and procedures used to account for and report on federal tax revenues. Such information is used as the basis for distributing taxes among the general fund and various trust funds, while other agencies and congressional committees use it to budget for, manage, and report on federal revenues. Our review of IRS' revenue financial management systems was an integral part of our audit of IRS' fiscal year 1992 financial statements. IRS is 1 of 10 federal agencies required to prepare financial statements and have them audited by June 30, 1993, as a pilot project under the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). The CFO Act establishes a blueprint for effective financial management reform that includes a strong financial management leadership structure, the requirement for a long-range financial management improvement plan, audited financial statements, development of performance and cost data, and integrated financial management systems. This is one of a series of reports resulting from our audit. Previously issued reports are listed in appendix I.

Background

IRS collects several types of taxes on behalf of the federal government, which are deposited with Treasury in the general revenue fund. Based on information certified by IRS and the Social Security Administration, Treasury distributes some of these moneys, such as social security taxes and some excise taxes,[1] to various trust funds established by statute. The remainder is held in the general revenue fund. Figure 1.1 shows the amount and percentage of each major tax type that IRS reported collecting for fiscal year 1992. Figure 1.2 shows the percentages of tax revenue that Treasury distributed to the general revenue fund and to trust funds.

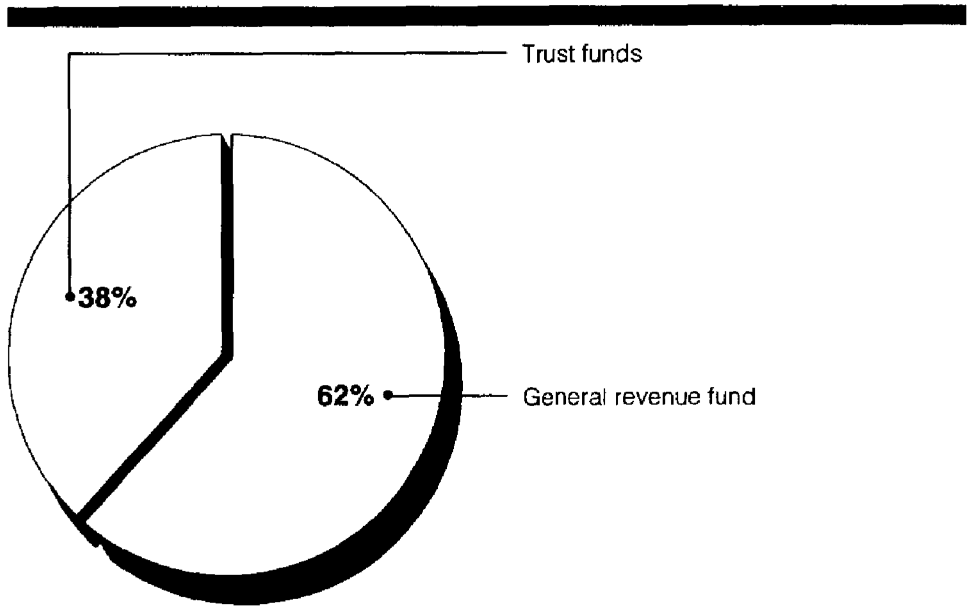
[1]Excise taxes are taxes levied on the purchase of specific types of goods or services, such as gasoline or telephone services.

Figure 1.1: Reported IRS Tax Revenues for Fiscal Year 1992 (Dollars In Billions)



Note: Employment taxes include FICA (employee and employer), self-employment, medicare, unemployment insurance, and railroad retirement.

Figure 1.2: Distribution of IRS Federal Tax Revenue for Fiscal Year 1992



Note: Excise taxes are distributed to both general revenue and trust funds.

Although most tax remittances are made directly to Treasury through financial institutions and the Federal Reserve, IRS receives the related payment data and is responsible for maintaining records of both tax assessments, based primarily on tax returns, and tax collections. Historically, IRS has maintained this information principally to support its collection activities. IRS provides revenue information to a variety of external users, including (1) other offices of the Department of the Treasury, where it is used as the basis for the distribution of taxes among the general revenue fund and various trust funds, and (2) the Office of Management and Budget and congressional committees, where it is available for a variety of analyses, such as those related to tax policies and budget deliberations, and (3) ad hoc reports to IRS managers, other agencies, and in response to inquiries from the media and the general public.

IRS operates 10 service centers and 63 district offices, which process and account for tax returns, tax payments, tax refunds, and various adjustments to taxes, penalties, and interest. Each service center maintains a general ledger and other records that summarize more detailed accounting information related to taxpayers in its geographic area. Transactions recorded by the service centers are posted on a weekly basis to IRS' master files of detailed taxpayer accounts, which are maintained at IRS' Martinsburg Computing Center (MCC) in Martinsburg, West Virginia.

Objectives, Scope, and Methodology

Our objectives were to evaluate the effectiveness and adequacy of significant systems and controls used by IRS to record, summarize, and report revenue information. Specifically, we assessed

- the (1) reliability of the information that IRS certified for Treasury to use as the basis for distributing tax revenues among federal trust funds and the general revenue fund and (2) adequacy of trust fund revenue information provided to other federal agencies, and
- the ability of IRS to compile reliable revenue information for its financial reports.

To assess the reliability of the information that IRS certifies for distributing tax revenues, we reviewed IRS' practices for developing such information and determined if the resulting certifications complied with the provisions of the laws pertaining to such distributions. To assess the adequacy of information on trust fund revenues provided to other federal agencies, we contacted officials responsible for managing trust funds at the Departments of Transportation, Interior, and Labor; the Railroad Retirement Board; and the Environmental Protection Agency, to obtain their opinions regarding the usefulness and sufficiency of the information available to them. We judgmentally chose these agencies because they are responsible for managing some of the larger trust funds. We also considered previous work we have performed related to the information needs of the Social Security Administration.

To assess IRS' ability to compile reliable reports, we reviewed and tested certain IRS systems and controls related to the authorization, recording, and reporting of revenue transactions and balances and discussed these systems and controls with IRS officials. The specific tests we performed are described in pertinent sections of chapters 2 and 3. Further, we considered the results of reviews and tests reported in internal IRS memos and audit reports and IRS' reports on material weaknesses pursuant to the Federal Managers' Financial Integrity Act.

Our ability to identify and test the effectiveness of all significant revenue-related systems and controls was limited. This was because IRS could not provide a list of the detailed transactions supporting the revenue information it reported. Therefore, we could not test a sample of these transactions to determine if they were appropriate and if the controls associated with them had been effective in ensuring their accuracy. Also, our review did not include an analysis of potential tax revenues that are not identified and assessed by IRS. In previous reports and testimony before congressional committees, we have discussed these potential revenues, often referred to collectively as the "tax gap," and IRS' efforts to identify and collect them. In addition, we did not include in our review an analysis of the procedures used to estimate tax expenditures. Tax expenditures are the tax receipts foregone under laws which permit various tax exemptions, deductions, and credits that reduce the amount of tax otherwise due.[2]

We conducted our work from June 1992 through May 1993 at IRS headquarters in Washington, D.C.; the Martinsburg Computing Center, in Martinsburg, West Virginia; and all 10 service centers. Our review was performed in accordance with generally accepted government auditing standards. IRS provided written comments on a draft of this report. These comments are presented and evaluated in chapters 2 and 3 and are reprinted in appendix II.

[2]Recent reports and testimony on tax gap include Tax Administration: Status of Tax Systems Modernization, Tax Delinquencies, and the Tax Gap (GAO/T-GGD-93-04, February 3, 1993) and Tax Administration: IRS' Efforts to Improve Corporate Compliance (GAO/GGD-92-81BR, April 17, 1992). Recent reports on tax expenditures include Tax Policy: Puerto Rico and the Section 936 Tax Credit (GAO/GGD-93-109, June 8, 1993) and Earned Income Tax Credit: Effectiveness of Design and Administration (GAO/T-GGD-93-20, March 30, 1993).

IRS Does Not Obtain and Report Information Needed to Properly Distribute and Manage Tax Revenues

Because IRS does not obtain detailed information on the specific types of taxes it collects, it cannot provide information on actual collections. This information is needed to properly distribute excise taxes and support budget and other policy decisions made by federal agencies and the Congress. Excise tax trust funds have received excess distributions from the general revenue fund, possibly several billion dollars, because they were based on taxes assessed rather than on actual collections, as required by law. Similarly, IRS cannot determine the general revenue fund's subsidy to the social security trust fund. This subsidy occurs because amounts distributed, which by law are to be based on earnings, exceed social security taxes collected. However, IRS cannot precisely determine the subsidy amount because it does not separately account for the specific amounts of social security taxes collected.

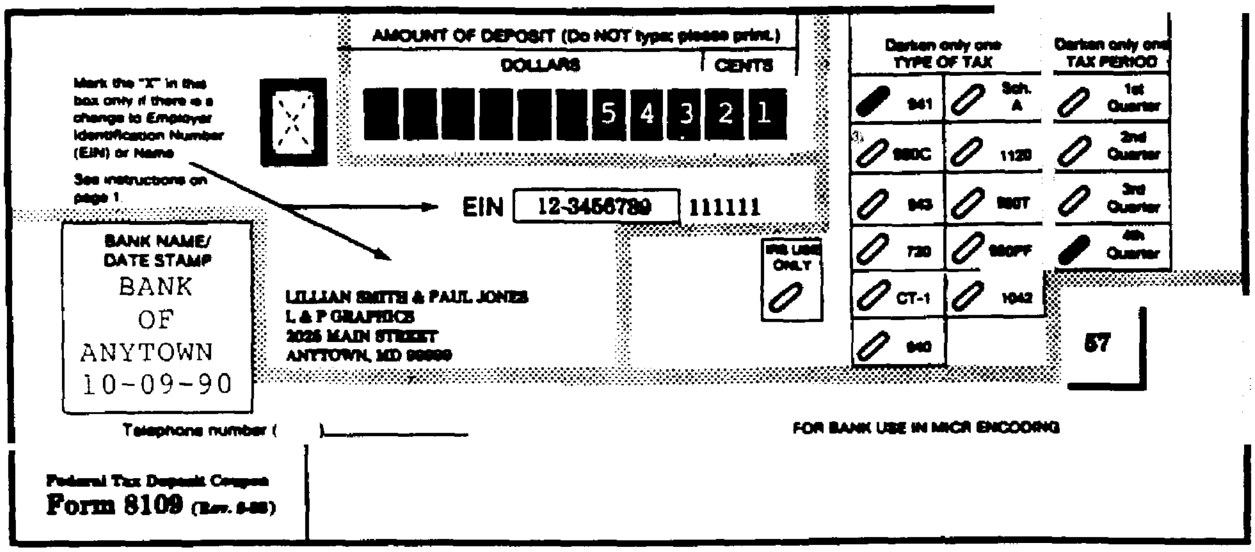
IRS is exploring ways to improve the procedures it uses to obtain and account for tax revenues through its Federal Tax Deposit system. However, these efforts have not been defined in enough detail to determine if they would result in IRS obtaining the detailed data needed to precisely determine amounts of specific types of taxes collected.

Payment Information Is Inadequate to Determine Specific Taxes Collected

Although IRS accounts for specific types of taxes assessed, it does not obtain sufficient detail to determine the amount of each of these taxes that is actually collected. This is because neither the documentation accompanying tax payments nor the related tax returns provide the needed level of detail on actual payments.

IRS' primary means of obtaining data from taxpayers is from documents accompanying payments made through the Federal Tax Deposit (FTD) system and from tax returns. During fiscal year 1992, $905 billion, or about 80 percent of all taxes were remitted by businesses through the FTD system. The frequency of these payments varies from weekly to quarterly depending on the type and amount of tax owed. Each FTD deposit must be accompanied by an FTD coupon, which requires the payer to identify the deposit as one of 11 categories of taxes. However, several of the broad FTD coupon tax categories summarize more than one specific tax type, and detailed information for these specific taxes is not requested. For example, the "941" category combines social security taxes and income taxes withheld from employees, while the "720" category combines approximately 50 specific excise taxes. Figure 2.1 shows an FTD coupon.

Figure 2.1: FTD Coupon



In addition to making tax deposits using FTD coupons, businesses file quarterly or annual tax returns that provide the detailed information on the amounts of specific types of taxes owed. For example, social security and income taxes owed are separately reported quarterly on Form 941 and specific excise taxes are generally separately reported quarterly on Form 720. IRS records these amounts as tax assessments. These tax returns also summarize the amount of related FTD payments made during the period. However, because of the consolidated reporting of amounts remitted, the specific tax paid within each of the categories is not identified. If there is a difference between the (1) total amount paid and (2) total amount owed and assessed, it is not allocated to a specific tax. For example, if a business owed two types of excise taxes totaling $3,000 but had only paid $2,800, IRS would not allocate the $200 shortfall between the two taxes. Although IRS' records would show a $200 receivable from this taxpayer, they would not show which specific type of tax had not been paid in full. IRS also records assessments of specific taxes when its examinations identify additional taxes due. However, the accounts receivable related to these assessments and the related payments are not identified by the specific tax they pertain to.

General Revenues Subsidize Excise Tax Trust Funds

Because IRS cannot determine the amounts of individual excise taxes collected, it cannot provide Treasury the information it needs to properly distribute these funds. Although some excise taxes are held in the general revenue fund maintained by Treasury, about three-quarters of the $34 billion of excise taxes assessed in fiscal year 1992 by IRS were deposited in trust funds that have been established by law and are earmarked for specific public purposes. Table 2.1 shows the excise taxes that are distributed, in whole or in part, to trust funds and the agencies responsible for the programs that use these trust funds. The remaining excise taxes collected are retained in the general revenue fund and, therefore, were not dedicated to support any particular program.

Table 2.1: IRS Reported Excise Tax Distributions to Trust Funds for Fiscal Year 1992

Dollars in millions

Tax	Program agency	Amount distributed
Highway	Transportation	$16,733[a]
Airport and airways	Transportation	4,645[a]
Superfund	Environmental Protection Agency	1,198
Black Lung	Labor	626
Oil spill	Transportation	295
Leaking underground storage tanks	Environmental Protection Agency	159
Vaccine injury compensation	Health and Human Services	118
Aquatic resources	Interior	299
Inland waterways	Army Corps of Engineers	70
Total		**$24,143**

[a]Additional highway taxes and airport and airways taxes were retained by the general revenue fund.

The legislation establishing these taxes requires that amounts actually collected be transferred to these trust funds. However, IRS cannot provide Treasury the information needed to comply with this requirement since IRS does not have information on actual collections for specific types of excise tax. Instead, IRS certifies amounts to be distributed based on excise taxes assessed, which, in total, generally exceed amounts actually collected. This excess distribution over actual collections is, in effect, a subsidy of the trust funds by the general revenue fund.

The general revenue fund subsidy cannot be precisely determined, primarily because the amounts of individual excise taxes collected are not known. However, the difference between IRS' records of total excise taxes distributed and collected indicate that, over the past several years, the subsidies may have totaled several billion dollars.

Precise Information on Social Security Trust Fund Subsidy Is Not Available

Similar to the lack of specific data on excise taxes, IRS cannot determine the difference between social security taxes distributed and collected and any resulting general revenue fund subsidy. Although taxes owed are based on earnings, for various reasons, not all taxes owed are collected by IRS. However, by law, amounts distributed to the social security trust fund are to be based on earnings, rather than collections.[1] A subsidy occurs because amounts distributed generally exceed social security taxes collected. Since IRS does not account for the specific amounts of social security taxes collected, IRS cannot precisely determine the subsidy amount. As a result, adequate information is not available to congressional committees and others who may be interested in monitoring the possible impact of this subsidy on the social security program's financial condition.

Obtaining information about the amount of social security taxes actually collected would be consistent with our September 1992 report on social security earnings records. In that report, we suggested that the Congress consider amending the Social Security Act to require that revenues credited to the social security trust funds be based on social security taxes collected.[2] We said that such a change would be more consistent with the self-financing concept on which the social security program is based and would result in more equitable distribution of revenue. Regardless of whether the Congress adopts our suggestion, reliable information on the amount of the general revenue fund subsidy to the social security trust fund would be valuable in such future deliberations.

Useful Information Is Not Provided to Most Agencies That Use Trust Fund Revenues

Detailed information on federal taxes assessed and collected would be useful to various parties, such as (1) executive branch agencies, which manage programs that depend on trust funds revenues, and (2) OMB and congressional committees and Members, which oversee and analyze the budget for these programs, and (3) the Congress, which budgets and

[1]Other issues related to social security records were previously reported in Social Security: IRS Tax Identity Data Can Help Improve SSA Earnings Records (GAO/HRD-93-42, March 29, 1993).

[2]Social Security: Reconciliation Improved SSA Earnings Records, but Efforts Were Incomplete (GAO/HRD-92-81, September 1, 1992).

establishes tax policies and rates for these programs. The Internal Revenue Code prohibits IRS from providing information on individual taxpayers to most federal agencies and others. However, IRS is not prohibited from providing summary information on tax assessments and collections.

Officials in four federal agencies that manage programs involving some of the largest trust funds told us that they receive virtually no supporting information on the distributions that their trust funds receive, such as the amounts of excise taxes assessed and collected. As a result, their ability is limited to verify that the amounts they receive are correct, assist IRS in enforcement efforts, or anticipate revenue adjustments that may adversely impact their programs. For example, because they did not receive information about the amount of taxes assessed and actually collected, officials responsible for managing the Unemployment Tax Trust Fund told us that they were taken by surprise when, in both 1989 and 1992, the fund was reduced by about $1 billion each time to correct previous years' revenue distributions. The 1992 reduction caused an overdraft in one of the fund's accounts, requiring it to borrow from another of the fund's accounts.

Several officials at other agencies stated that more detailed information on assessments and collections would allow them to properly monitor their excise tax trust funds. For example, officials from the Federal Aviation Administration told us that they believe information on taxes paid by individual airline carriers, if available under the Internal Revenue Code would assist them in estimating future revenue and identifying potential underpayments.

In another example, at the request of the Railroad Retirement Board,[3] IRS consolidated its railroad retirement tax collections and accounting at one service center so that it could more readily provide the Board with detailed information on these taxes. The Railroad Retirement Board has statutory authorization to receive detailed taxpayer information. Railroad retirement taxes are separately identified on the FTD coupons, allowing IRS to easily provide summary information on actual collections. In 1988, the Board used this summary information to identify two instances in which Treasury failed to credit a total of $154 million in taxes to railroad retirement trust funds. After Treasury was notified, the funds were transferred. As a result of working together, IRS has agreed to provide

[3]The Railroad Retirement Board manages retirement programs, similar to the social security program, for covered employees.

detailed taxpayer information to the Railroad Retirement Board so that it may reconcile distributions with information provided by employers on railroad retirement taxes paid.

Also, as described in our September 1992 report on social security earnings records, IRS' sharing of information with the Social Security Administration (SSA) aided in improving SSA's earnings records which are used to calculate social security benefit payments. Since the late 1970s, SSA has relied on IRS wage records to supplement its own incomplete records. Since 1987, the two agencies have worked together in an effort to resolve discrepancies between their earnings records. As of September 1992, an unreconciled difference in earnings records between IRS and SSA of $65 billion still remained.

More complete and accurate information on tax assessments and collections would also be useful to the Congress in making appropriation decisions and others who analyze tax policies. During this time of significant budget deficits, the Congress must make hard choices regarding spending cuts and additional sources of revenue, and managers must strive to use the resources they have as efficiently and wisely as possible. Such decisions and judgments can best be made when meaningful and reliable information is available. For example, agencies in some instances cannot use trust fund moneys until the Congress has specifically appropriated these funds. For these funds, the Congress may want to consider actual excise tax collections before deciding on how much to appropriate in any given year. Also, reliable information on actual collections, as well as assessments, would be useful in analyzing, setting and modifying employment and excise tax rates. Past rate decisions may have been different had the Congress had information on actual collections for each type of tax. Further, the excise tax information reported in the President's annual budget submission to the Congress as prior years' actual tax collections is, in reality, tax assessments.

System Improvement Efforts Do Not Specifically Address Obtaining Detailed Collection Information

IRS, in conjunction with Treasury's Financial Management Service, has several efforts under way to explore ways of improving the FTD payment process. However, the prospective improvements have not been defined in enough detail to determine if they would result in IRS obtaining the detailed data needed to account for individual tax collections.

In an April 1993 report[4] on the FTD system, we described IRS' improvement efforts, which were primarily aimed at automating existing processes. We also described the benefits of making more fundamental changes to the FTD process in order to obtain the more detailed data on payments at the time payments were made rather than waiting for this information to be submitted later on tax returns. Such a change would reduce the number of forms processed and related errors and would eliminate the need for the time-consuming reconciliations that IRS must perform to resolve discrepancies between FTD payments and amounts reported on tax returns. Also, it could provide IRS a means of obtaining the detailed information on tax receipts needed to properly distribute excise taxes and monitor the social security trust fund subsidy. In commenting on a draft of that report, officials responsible for the FTD improvement efforts said that they were planning to test concurrent collection of both payment and accounting data to determine the related cost, impact on taxpayers, and the best methods to use.

Conclusions

IRS is in a unique position to obtain and provide tax revenue information that is needed to properly distribute taxes and that would be useful in a variety of policy and budget decisions and in managing trust fund revenues. However, these benefits are not being realized because IRS (1) does not obtain information on specific types of taxes collected and (2) provides little or no revenue information to the agencies that rely on trust fund revenues to finance their programs.

Recommendations

We recommend that the IRS Commissioner develop a method to determine specific taxes collected by trust fund so that the difference between amounts assessed and amounts collected is readily determinable and excise tax receipts can be distributed as required by law. This could be done by obtaining specific payment detail from the taxpayer, consistent with our April 1993 FTD report. Alternatively, IRS might consider whether allocating payments to specific taxes based on the related taxpayer returns is a preferable method.

We also recommend that the IRS Commissioner direct the Chief Financial Officer, who is responsible for financial reporting, to determine the trust fund revenue information needs of other agencies and provide such

[4]Federal Tax Deposit System: IRS Can Improve the Federal Tax Deposit System (GAO/AFMD-93-40, April 28, 1993).

information, as appropriate. If IRS is precluded by law from providing needed information, IRS should consider proposing legislative changes.

Agency Comments and Our Evaluation

In written comments on a draft of this report, IRS agreed that it was not in compliance with the reporting of excise taxes. It also stated that it has always believed that the difference between actual collections and the assessments on which it bases its reports are not significant, and that it was working to determine the amount of the difference. Depending on the materiality of the difference, it will explore the cost and burden on taxpayers of changing the Federal Tax Deposit system to bring its reports in compliance with existing law or recommend changes to the laws on excise taxes.

IRS also agreed with our recommendation that it expand its assessment of the revenue information needs of other agencies and provide such information as appropriate. It said that where there is agreement that better and more cost-effective tax administration would be achieved, it would pursue legislative remedies to barriers that would impede achieving those objectives.

Reported Revenue Information Is Unreliable

IRS provides revenue information throughout the year in both routine and ad hoc reports to IRS managers, congressional committees, Treasury, and other agencies, as well as in responses to inquiries from the media and the general public. For example, such information is included in the President's annual budget submission to the Congress, reports required by the Chief Financial Officers Act of 1990, special reports on collection and enforcement efforts, as well as testimony before congressional committees. Such information is used to monitor IRS operations and analyze budget and tax policies.

During our audit of IRS' fiscal year 1992 financial statements, we identified weaknesses that affect the reliability of the data that underlie all of the revenue information that IRS reports to other agencies and in response to congressional and other requests. Specifically, we found over $200 billion in errors and misstatements that occurred because (1) IRS systems were not designed to report needed information and (2) available information was not properly or adequately analyzed to ensure that what was reported was complete, appropriate, and useful. Also, we identified control weaknesses that (1) diminish the reliability of manual interest calculations and manually prepared general ledger entries and (2) impair IRS' ability to identify erroneous or fraudulent information submitted by taxpayers.

In accordance with the requirements of the CFO Act, IRS plans to provide its CFO a larger role in overseeing revenue activities, including developing accounting policies and systems to improve the reliability of reported revenue information. Such centralized oversight can provide the coordination and financial management perspective needed to help ensure that IRS' revenue data are reliable and properly reported.

Reported Data Are Not Properly Analyzed

IRS does not properly analyze the revenue data it maintains to determine what information should be reported, how it should be reported, and if it pertains to the appropriate period. As a result, reported information may be significantly misstated. During our audit of IRS' fiscal year 1992 financial statements, we identified several instances that illustrate the effects of this lack of proper analysis.

Some amounts reported in IRS' financial statements and in its reports to Treasury were misstated because IRS had not performed a year-end analysis of over $150 billion in account balances associated with (1) transactions that were being processed and (2) credits that had not been refunded to taxpayers because IRS had either not resolved questions related to their propriety or could not locate the taxpayer. These in-process transactions related to tax receipts, tax returns, adjustments, and other items, most of which were processed and posted to other accounts within a few weeks after the end of the reporting period. A fundamental accounting principle requires that financial reports include all essential financial information for the period covered by the report. Generally, this requires that an analysis be performed at the end of each reporting period to ensure that all financial transactions that occurred during the period are recorded in the proper accounts. However, IRS had not established a policy to perform such end-of-period analyses.

For example, although we were able to determine that IRS' total reported revenues of about $1.1 trillion were collected and deposited into Treasury accounts, a portion of these receipts had not been posted to taxpayer accounts as of fiscal year-end. Similarly, as of September 30, tax returns received near fiscal year-end were still being processed, so the related assessments had not yet been posted to taxpayer accounts.

Because IRS had not analyzed these transactions to determine their disposition after processing was complete, it could not determine their effects on individual accounts and adjust the account balances accordingly. As a result, accrued account balances, such as accounts receivable and refunds payable, were misstated. In its September 30, 1992, financial statements required by the CFO Act, IRS disclosed in a note that such in-process transactions were not reflected in the reported account balances. Similarly, IRS' September 30, 1992, reports to Treasury did not properly reflect such in-process transactions on account balances.

In addition, IRS' September 30, 1992, financial statements did not include any of the $67 billion in credits remaining on taxpayer accounts because IRS had not analyzed them to determine if they should be included and how they should be reported. Of this amount, $13 billion was over 180 days old. We examined a small judgmental sample of these amounts and found some that should have been reflected in the statements as reductions in accounts receivable; others appeared to be owed to taxpayers and, therefore, should have been reported as liabilities; and still others were erroneous and should have been deleted from IRS' records.

We also identified misstatements in the 1992 financial statements filed with OMB in March 1993, which were subsequently corrected in the financial statements that accompanied our June 30, 1993, financial audit report. For example, supplemental information to the financial statements contained information on distributions of taxes that was inconsistent with the same information presented on the face of the statements. Specifically, the note showed distributions that were overstated by $113 billion because the effects of refunds to taxpayers paid during fiscal year 1992 were omitted. Further, the amount of excise tax assessments was not for the period reported. Amounts reported represented transactions occurring in the 12-month period ending June 30, 1992, and not the 12-month period ending September 30, 1992, as reported. IRS personnel responsible for developing these reports were aware that these figures were for the wrong period but did not make the necessary adjustments.

IRS' unreliable reports resulted from the IRS National Office not adequately determining its information needs, developing reliable sources for this information, and establishing written procedures for compiling reported information. These practices increase the risk of errors and inconsistencies and result in a lack of continuity as some personnel leave and others assume their duties.

IRS Systems Do Not Support Revenue Reporting

IRS' ability to compile certain revenue information was impeded because its revenue accounting systems were not designed to provide the appropriate data. These systems were initially designed to provide information to support enforcement activities, rather than revenue reporting, and were not integrated to ensure that agencywide activity was captured and reported efficiently and consistently.

Because appropriate data are not maintained, IRS uses estimates and other alternative sources to determine and support reported revenue information. This requires manual calculations and compilations of data—an inefficient practice that has increased the risk of errors and omissions.

In addition, IRS' systems had not been designed to report basic information supporting summary level balances or perform analyses needed for financial reports. For example, IRS could not readily provide a record of the detailed transactions that supported its general ledger balances for revenue. IRS officials told us that they would have to develop a special computer program to obtain such records, an effort they estimated would take about 10 months. As a result, we were not able to test the transactions supporting IRS' reported fiscal year 1992 revenue and the associated internal controls, a limitation that contributed to our inability to render an opinion on IRS' fiscal year 1992 financial statements and on its internal controls. Similarly, due to systems deficiencies, IRS cannot readily determine, for a given period, the total amount of a specific type of transaction or analyze its components. This hinders IRS' ability to (1) promptly respond to ad hoc requests for information without relying on estimates or (2) provide details that are needed to audit account balances.

Another hindrance to reporting has been IRS' outdated and inefficient data storage methods. For example, the IRS master file system stores data associated with millions of taxpayer accounts on magnetic tape reels, which are less efficient to maintain and use than other electronic media currently available. This has impaired IRS' ability to promptly retrieve complete information on taxpayer accounts. During fiscal year 1992, IRS transferred its files from tape reels to tape cartridges, which IRS officials say has improved the efficiency and reliability of its data processing. IRS plans to eventually transfer its files to even more efficient storage media, which will allow more efficient data retrieval. However, as of May 1993, a timetable for completion of this improvement had not been established.

The Chief Financial Officers Act of 1990; OMB Circular A-127, "Financial Management Systems;" and various federal standards issued by GAO and others require each agency to develop and maintain an integrated agency financial management system. As part of a long-term effort, known as Tax Systems Modernization, IRS plans to integrate its revenue accounting system so that one transaction will automatically update all appropriate records and that these records will be maintained on a consistent basis. However, this effort is not expected to be completed until well into the next decade.

Controls Over Underlying Data Are Inadequate

Some revenue information reported is unreliable because IRS has not instituted controls to ensure that the underlying transactions are proper, authorized, and accurately entered and that discrepancies are promptly identified and resolved. The weaknesses we identified pertain to (1) manually calculated interest, which IRS refers to as "restricted" interest, (2) income and withholding information which is not promptly matched, and (3) manual entries into IRS' revenue general ledger.

Improvements Regarding Restricted Interest Are Not Yet Effective

IRS has not implemented procedures to ensure that restricted interest, which is calculated manually or on a personal computer, is accurately assessed and completely reported. While interest on most accounts receivable is automatically and routinely calculated at IRS' primary computing center,[1] some interest is calculated manually or on personal computers because the capability to calculate interest in accordance with certain legal requirements has not been programmed into systems at IRS' primary computing center. IRS refers to this interest as restricted interest because the accounts it relates to have been restricted from the automatic interest calculations that most accounts are subject to. Although IRS could provide no estimates of the amount of restricted interest it calculates, limited tests done by IRS' Ogden Service Center indicate that such transactions agencywide total well over $1 billion annually.

Various studies done by IRS have shown that error rates associated with restricted interest calculations are high and that, because IRS personnel do not fully understand related requirements, they have difficulty in adequately responding to taxpayer inquiries. This may have diminished confidence in IRS' ability to effectively enforce the tax code. Tests at the Ogden Service Center showed that IRS has lost revenue by inadvertently calculating amounts that were too low and overcharged taxpayers by calculating amounts that were too high. Also, IRS' Manhattan District Office reviewed 499 manual interest cases it had processed from June 1990 to February 1993 and found that 63 percent contained errors. Further, restricted interest included in reported accounts receivable information is understated, because it is not routinely updated. Instead, individual accounts are updated only as needed, for example, when a payment is made against a taxpayer account.

IRS has identified its difficulty in properly calculating restricted interest as a problem since 1986 when it was identified as a material weakness in IRS' annual report on internal controls required by the Federal Managers' Financial Integrity Act. In 1989, IRS prematurely reported that its difficulties in calculating restricted interest had been corrected. Its corrective action was to develop a computer program and update procedures to calculate the interest. However, a March 1991 IRS internal audit report concluded that such difficulties in calculating restricted interest were still a significant problem. Further, in April 1991, IRS established a national task force under its Chief Operating Officer to identify the causes of restricted interest problems and recommend solutions. Since then, other IRS officials, internal auditors, and program analysts also have investigated restricted interest issues. The task force and others concluded that IRS employees had difficulty keeping up with

[1]Because of IRS' inability to provide a listing of supporting transactions, we did not test the accuracy of interest that was automatically calculated by IRS computers.

changes in legislation and knowing what procedures to follow. The causes identified included numerous modifications to tax laws that had not been programmed into IRS' computer systems, a resulting increase in taxpayer accounts subject to restricted interest, decentralization of responsibility for calculating manual interest, and a lack of clear written guidance and adequate training.

In August 1992, the national task force recommended limiting the computation of restricted interest to specialized personnel and establishing expert staff at each service center to help ensure consistent administration of restricted interest policies. In September 1992, the Chief Operating Officer endorsed the task force recommendations and formed a team to study implementation of these improvements.

IRS has also undertaken other improvements, such as developing standardized personal computer software for calculating restricted interest, identifying areas where IRS could suggest simplifications of existing and proposed legislation, and improving available guidance and training. However, as of March 1993, these improvements had not been fully implemented. Memos from Southwest Region officials, issued between January 1993 and March 1993, stated that significant problems still existed at the service centers and district offices regarding the accuracy of restricted interest calculations.

Income and Withholding Information Is Not Promptly Matched

While there are a number of controls important to IRS enforcement, one of the procedures that IRS employs to discover erroneous or fraudulent information in tax returns is a document matching program. This program matches payment reports, primarily from businesses, to amounts that are, or should be, included as income on tax returns. However, as we have reported previously, this matching of documents is not currently performed in a timely manner.[2]

IRS records the income and withholding information reported on individual tax returns, thereby relying on this information, along with other information on the tax return, as the basis to determine the amount of tax due. So that it can verify certain data submitted by individuals, IRS requires information to be provided by third parties. For example, IRS requires employers and other businesses to provide IRS with a copy of each information document issued (such as W-2 and 1099 forms). IRS matches information provided by individuals on their tax returns with that provided

[2] Tax Administration: Examples of Waste and Inefficiency in IRS (GAO/GGD-93-100FS, April 27, 1993).

by third parties to identify differences for investigation. However, this matching process is delayed due to IRS' receipt of large volumes of paper returns, delays in the receipt of the wage information from external sources, the balancing and correction of information provided, and the limited available time on its computers during the tax return filing season.

IRS officials told us that they plan to develop new procedures that will allow for earlier matching of income and withholding information submitted by individuals and third parties. However, this effort is part of Tax Systems Modernization, and IRS officials said that they have not yet determined when IRS will be capable of more timely information matching.

Manual General Ledger Entries Are Not Consistently Reviewed

IRS does not consistently review manually input entries to its general ledger to ensure that they are properly authorized and accurately entered. As a result, IRS does not have adequate assurance that entries are correct and that the financial management reports that are based on these summary balances are reliable. These reports include quarterly and annual reports to Treasury, budget execution reports to OMB, IRS' annual financial statements, and ad hoc reports to congressional committees and the media. In 1988, GAO reported that IRS' general ledger revenue records were susceptible to errors, primarily because entries were entered manually.[3] Since 1990, the IRS has automated some interfaces between the general ledger and subsidiary systems so that summary data are transmitted electronically. However, some entries are still entered manually, and IRS' written procedures require that service centers provide "adequate or normal levels of controls," but do not prescribe specific procedures.

There are two types of manual entries to the general ledger. The first type is based on authorizing documents received from systems or processes external to the general ledger. At two of five service centers contacted, IRS did not have adequate procedures to ensure that all such entries to the general ledger were authorized and reviewed.

The second type of manual entry is an adjusting entry, such as adjustments to correct errors identified during reconciliations between general ledger balances and related or subsidiary records. Adjusting entries are initiated and entered by the same employee, without supervisory review. This violates a basic internal control standard that key duties, such as authorizing and recording transactions, be separated between at least two

[3]Internal Revenue Service: Need to Improve the Revenue Accounting Control System (GAO/IMTEC-88-41, June 17, 1988).

individuals. The risk of this control weakness was heightened because none of the five service centers approved or consistently reviewed adjusting entries before or after input.

As a result, IRS cannot ensure that (1) manual entries are appropriate and authorized and (2) any keying errors associated with manually input entries are detected. Although IRS has instituted control procedures that would detect some errors, these procedures cannot be relied on to provide adequate assurance that all significant errors in the general ledger balances would be detected and corrected. For example, required monthly reconciliations between general ledger balances and subsidiary records would not detect errors that affected both sets of records equally.

IRS Plans Greater CFO Involvement in Revenue Accounting and Reporting

IRS is developing reorganization plans intended to provide the CFO a larger role in overseeing revenue activities, including developing accounting policies and approving systems to improve the reliability of revenue information. Although the CFO is responsible for financial reports, the CFO has not had the authority needed to ensure that these reports are accurate and developed in accordance with applicable accounting standards. During the period of our audit, the IRS Assistant Commissioner for Returns Processing was responsible for all aspects of revenue accounting, including approving development of the data supporting IRS' financial statements and reports to Treasury and overseeing related system improvement efforts. The Assistant Commissioner reports to the Chief Operations Officer, who is primarily responsible for collections and enforcement activities.

The CFO Act, in addition to requiring certain agencies to develop financial statements and have them audited, required each of the 23 major departments to establish a CFO with comprehensive responsibilities for overseeing the agencies' financial management organization and systems. As one of these 23 agencies, Treasury developed a plan for implementing the act that outlines the financial management responsibilities it intends the CFOs to have in each of its bureaus, including IRS. These responsibilities include

- establishment and enforcement of financial management, accounting, and internal control policies for both administrative and program areas and
- review and approval of all financial management system changes.

Further, OMB's February 1991 "Guidance for Preparing Organization Plans Required by the CFO Act" states that CFOs should have the authority to

- ensure that program information systems provide financial and programmatic data reliably, consistently, and promptly to agency financial management systems and
- manage directly, and/or monitor, evaluate, and approve, the design, budget, development, implementation, operation, and enhancement of agencywide and agency-component accounting, financial, and asset management systems.

In response to our May 1993 report on IRS' accounts receivable, IRS' Acting Commissioner said that IRS is "moving forward to place responsibility for the entire revenue accounting function under the Chief Financial Officer." Currently, a team of IRS officials is studying IRS' financial management functions in order to clarify the CFO's role.

Conclusions

IRS faces major challenges in developing a single, fully integrated financial management system and producing reliable and useful revenue information. Currently, IRS' systems are not capable of producing reliable tax revenue information, and IRS has not developed procedures to compensate for these system deficiencies. As a result, the revenue information that IRS provides to a variety of users both within and outside of government is not reliable. IRS' systems were designed primarily to support its enforcement activities rather than to report financial management information needed by other internal and external users. However, IRS is in an opportune position to make the changes needed to substantially improve its reporting capabilities due to (1) the increased emphasis on reliable and useful financial management information as a result of the CFO Act and (2) IRS' efforts to modernize its tax systems.

Recommendations

We recommend that the IRS Commissioner direct the Chief Financial Officer to take the following actions:

- Identify reporting information needs, develop related sources of reliable information, and establish and implement policies and procedures for compiling this information. These procedures should describe any (1) adjustments that may be needed to available information and (2) analyses that must be performed to determine the ultimate disposition and classification of amounts associated with in-process transactions and amounts pending investigation and resolution.

- Establish detailed procedures for (1) reviewing manual entries to the general ledger to ensure that they have been entered accurately and (2) subjecting adjusting entries to supervisory review to ensure that they are appropriate and authorized.

We recommend that the Commissioner of the IRS direct the Chief Operations Officer, in conjunction with the CFO, to monitor implementation of actions to reduce the errors in calculating and reporting manual interest, and test the effectiveness of these actions.

We also recommend that the Commissioner of IRS give priority to the IRS efforts that will allow for earlier matching of income and withholding information submitted by individuals and third parties.

Agency Comments and Our Evaluation

Although IRS' written comments did not individually address each of the recommendations in this chapter, IRS stated that it was in the process of transferring certain authority relating to revenue accounting to the Chief Financial Officer. IRS also stated that the CFO function was providing expanded guidance and direct involvement in monitoring the inclusion of appropriate accounting standards and requirements in the various aspects of revenue accounting activities and systems. In addition, IRS stated that the CFO, in conjunction with Returns Processing revenue accounting staff, was exploring ways to more accurately match revenue information to the correct accounting periods and that it will strive to report reliable revenue information in its financial statements.

Reports Resulting From GAO's Audit of IRS' Fiscal Year 1992 Financial Statements

Federal Tax Deposit System: IRS Can Improve the Federal Tax Deposit System (GAO/AFMD-93-40, April 28, 1993)

Financial Audit: IRS Significantly Overstated Its Accounts Receivable Balance (GAO/AFMD-93-42, May 6, 1993)

Financial Audit: Examination of IRS' Fiscal Year 1992 Financial Statements (GAO/AIMD-93-2, June 30, 1993)

Financial Management: IRS Lacks Accountability Over Its ADP Resources (GAO/AIMD-93-24, August 5, 1993)

IRS Information Systems: Weaknesses Increase Risk of Fraud and Impair Reliability of Management Information (GAO/AIMD-93-34, September 22, 1993)

Financial Management: IRS' Self-Assessment of Its Internal Control and Accounting Systems Is Inadequate (GAO/AIMD-94-2, October 13, 1993)

Comments From the Internal Revenue Service

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

November 2, 1993

Mr. Donald H. Chapin
Assistant Comptroller General
United States General Accounting Office
Accounting and Information Management Division
Washington, D.C. 20548

Dear Mr. Chapin:

Thank you for the opportunity to comment on the GAO draft report Important IRS Revenue Information Is Unavailable or Unreliable. This draft is the fifth in a series of reports to be issued by GAO as part of the audit of our 1992 financial statements.

Your report contains many recommendations that will require a hard look at the way the Service receives and maintains revenue related data. Many of the recommendations can not be addressed solely within the Service but require coordination with outside agencies. Your recommendations also require legislative changes. We stand committed to the goals of the Chief Financial Officers' Act to improve financial management and to provide federal stakeholders and managers with accurate and timely financial information. We are willing to work with you in this effort to improve federal financial management.

We agree with the comments that we are not in compliance with the reporting of excise tax collections. We have always believed that the difference between actual collections and the assessments on which we base our reports is not significant. At the present time, we are working to determine the amount of the difference. Depending on the materiality of the difference, we will explore the cost and burden on taxpayers of changing the Federal Tax Deposit System to bring our reports in compliance with existing law or recommend changes to the laws on excise taxes. As you stated, we are in compliance with the laws regarding the transfer of Social Security Taxes. As noted in our response to your Federal Tax Deposit System: IRS Can Improve the Federal Tax Deposit System report, we are assessing the costs and benefits of concurrent data collection of both payment and accounting data.

We agree with the recommendation that we expand our assessment of the revenue information needs of other agencies and provide such information as appropriate. We will explore, with GAO and other outside agencies, information on excise taxes that will aid in the administration of these funds. In fact, in the past we have furnished whatever statistics, analyses or other information was requested, except for that prevented by disclosure laws. In addition, we have invited agency representatives to attend seminars and to accompany us on field visitations to better understand IRS reporting systems and to enhance our relations. Where there is agreement that better and more cost effective tax administration will result we will pursue legislative remedies to barriers that would impede meeting our objectives.

Since the period covered by the report, we have been in the process of transferring certain authority relating to revenue accounting to the Chief Financial Officer. The CFO function is providing expanded guidance and direct involvement in establishing and monitoring the inclusion of appropriate accounting standards and requirements in the various aspects of our revenue accounting activities and systems. His office, in conjunction with Returns Processing revenue accounting staff, is exploring ways to more accurately match revenue information to the correct accounting periods. We will strive to report these revenues on our consolidated financial statements to improve the accuracy of the financial data.

We look forward to continuing our work with you in this effort and hope you find these comments useful.

Sincerely,

for Co. Morgan Kingham

Margaret Milner Richardson

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