

May 2003

INTERNAL REVENUE SERVICE

Status of
Recommendations
From Financial Audits
and Related Financial
Management Reports



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-03-665](#), a report to the Commissioner of Internal Revenue

Why GAO Did This Study

In its role as the nation's tax collector, the Internal Revenue Service (IRS) has a demanding responsibility in collecting taxes, processing tax returns, and enforcing the nation's tax laws. Since GAO's first audit of IRS's financial statements in fiscal year 1992, a number of weaknesses in IRS's financial management operations have been identified. In related reports, GAO has recommended corrective action to address those weaknesses.

Each year as part of the annual audit of IRS's financial statements, GAO not only makes recommendations to address any new weaknesses identified but also follows up on the open weaknesses GAO identified in previous years' audits. The purpose of this report is to assist IRS management in tracking the status of audit recommendations and actions needed to address them.

What GAO Recommends

GAO did not make any new recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-03-665.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Steven J. Sebastian at (202) 512-3406, sebastians@gao.gov.

INTERNAL REVENUE SERVICE

Status of Recommendations from Financial Audits and Related Financial Management Reports

What GAO Found

Many of GAO's open audit recommendations to IRS were made during the past 6 months; others, however, have been outstanding for an extended period of time. The continued existence of these problems exposes IRS to loss due to errors or theft and impairs the reliability and availability of current, accurate financial information that management needs to make decisions on a day-to-day basis.

Of 98 recommendations related to financial management (consisting of 62 recommendations open as of July 2002, 27 recommendations included in GAO's January 2003 report on management and oversight at lockbox banks, and 9 new recommendations included in GAO's management report for fiscal year 2002), GAO is closing 20 because of actions IRS has taken to address the issues that gave rise to them. These actions were verified by GAO in the course of conducting the audit of IRS's fiscal year 2002 financial statements.

Of the remaining 78 financial management recommendations GAO considers open as of the date of this report, 73 are short term (capable of being addressed within 2 years) and 5 are long term (expected to require more than 2 years to implement). IRS considers 34 (44 percent) of the 78 recommendations to be closed. For 26 of these 34, including 15 related to GAO's recent report on lockbox banks, GAO considers them still open because it has not yet had an opportunity to verify the actions taken by IRS. The actions cited by IRS are recent and were taken after GAO's financial statement audit work for the year was completed. For 8 of the 34 recommendations that IRS considers closed, GAO found that action taken by IRS has not yet been fully effective in addressing the condition that gave rise to the recommendation. IRS disagrees with the remaining recommendation.

IRS continues to exhibit a strong commitment to addressing its ongoing financial management problems and has made improvements in recent years that have resulted in the closing of many recommendations. At the same time, the continued existence of the serious financial management weaknesses that gave rise to the remaining open recommendations represents a serious obstacle that IRS needs to overcome to achieve effective financial management.

GAO will continue to monitor IRS's progress in implementing the 78 recommendations that remain open as of the date of this report. IRS expects GAO to find in its fiscal year 2003 financial audit that IRS has taken corrective actions to allow closure of another 34 recommendations. In addition, IRS has stated that it is actively working to implement corrective actions to address all remaining open recommendations.

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Abbreviations

| | |
|-------|--|
| ADP | automated data processing |
| ATFRP | Automated Trust Fund Recovery Penalty |
| CADE | Customer Account Data Engine |
| CAP | Custodial Accounting Project |
| CARE | Communication, Assistance, Research and Education |
| CFO | Chief Financial Officer |
| COIC | Centralized Offer in Compromise |
| EDW | Enterprise Data Warehouse |
| FAOP | Field Assistance Operating Procedures |
| FBI | Federal Bureau of Investigation |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| FMFIA | Federal Managers' Financial Integrity Act of 1982 |
| FMS | Financial Management Service |
| IEI | Invitations for Expressions of Interest |
| IFS | Integrated Financial System |
| IRM | Internal Revenue Manual |
| IRS | Internal Revenue Service |
| IT | information technology |
| IRACS | Interim Revenue Accounting Control System |
| ITAMS | Information Technology Asset Management System |
| LPG | Lockbox Processing Guidelines |
| MOU | Memorandum of Understanding |
| NFC | National Finance Center |
| NTEU | National Treasury Employees Union |
| OHRES | Office of Human Resources Enterprise Solutions |
| OIC | Offer in Compromise |
| P&E | property and equipment |
| SETS | Security Entry and Tracking System |
| SPIF | Single Point Inventory Function |
| TAC | Taxpayer Assistance Center |
| TFRP | Trust Fund Recovery Penalty |
| W&I | Wage and Investment |

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

May 29, 2003

The Honorable Mark W. Everson
Commissioner of Internal Revenue

Dear Mr. Everson:

This report provides the status of the Internal Revenue Service's (IRS) efforts to implement recommendations we have made based on our audits of IRS's financial statements and other efforts related to financial management. In updating the status of these recommendations, we have included the results of our audits of IRS's financial statements for fiscal years 2002 and 2001.¹ This report is being provided to you to (1) assist IRS management in tracking the unresolved issues identified in our prior financial audits² and (2) report on the current status of open audit recommendations detailed in our previous financial audit and financial management-related reports. In cases where IRS has taken action on open recommendations that did not result in our closing them, we explain why this occurred.

Since our first audit of IRS's financial statements in fiscal year 1992, our audits have identified a number of weaknesses in IRS's financial management operations. In related reports on IRS's internal controls and in management letters, we have recommended corrective actions to address those weaknesses. Appendix I lists (1) recommendations we have made based on our financial audits and other financial management-related work that we have not previously reported as closed, (2) IRS's reported status of each of these recommendations and its corrective actions taken or planned as of April 2003, and (3) our analysis of whether the issue that gave rise to the recommendation has been effectively and fully addressed based on the work performed during our fiscal year 2002 financial audit. Effectively implementing recommendations is critical for IRS to resolve its financial management challenges.

¹U.S. General Accounting Office, *Financial Audit: IRS's Fiscal Years 2002 and 2001 Financial Statements*, [GAO-03-243](#) (Washington, D.C.: Nov. 15, 2002).

²U.S. General Accounting Office, *Internal Revenue Service: Status of Recommendations from Financial Audits and Related Financial Management Reports*, [GAO-02-848](#) (Washington, D.C.: July 30, 2002).

Status of Recommendations

In July 2002, we issued a report that provided (1) the status of IRS's efforts to implement prior recommendations as of our fiscal year 2001 financial audit³ and (2) new recommendations based on the results of our fiscal year 2001 financial audit.⁴ In the July 2002 report, we included 89 audit recommendations that we had not previously reported as being closed, some dating back as far as 1993. Of the 89 recommendations, 27 were closed at the time that report was issued, leaving 62 that were used as a starting point for appendix I of this report. For this year, we added 27 new recommendations included in our January 2003 report on IRS's and Treasury's Financial Management Service's (FMS) management and oversight of lockbox banks⁵ and 9 new recommendations included in our fiscal year 2002 management report,⁶ for a total of 98 recommendations. Based on the results of our recently completed fiscal year 2002 financial audit, we are closing 20 recommendations made in prior audits due to verified actions IRS has taken to address the issues that gave rise to them. Therefore, as of the date of this report, 78 financial management recommendations remain open, 73 of which are short term and 5 of which are long term.⁷

As indicated in appendix I, of the 78 recommendations we consider to be open, IRS considers 34 (44 percent) to be closed. We consider 26 of these recommendations (including 15 related to our recent report on lockbox banks) to be open because IRS has taken recent corrective action to resolve these recommendations, but we have not yet verified implementation of the corrective action, which is a prerequisite to closing the recommendation. The actions cited by IRS are recent and were taken

³U.S. General Accounting Office, *Financial Audit: IRS's Fiscal Year 2001 and 2000 Financial Statements*, [GAO-02-414](#) (Washington, D.C.: Feb. 27, 2002).

⁴[GAO-02-848](#).

⁵U.S. General Accounting Office, *IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed*, [GAO-03-299](#) (Washington, D.C.: Jan. 15, 2003).

⁶U.S. General Accounting Office, *Management Report: Improvements Needed in IRS's Internal Controls*, [GAO-03-562R](#) (Washington, D.C.: May 20, 2003).

⁷Short-term recommendations are defined as those that could be addressed within 2 years. Long-term recommendations are defined as those recommendations expected to require 2 years or more to implement. These designations were assigned at the time the recommendation was first issued.

after our fiscal year 2002 financial statement audit work was completed. For 8 of the 34 recommendations that IRS considers closed, we found that action taken by IRS has not been fully effective in addressing the condition that gave rise to the recommendation. IRS disagrees with the remaining 1 recommendation.

Regarding the 34 recommendations IRS considers closed, many involved issuance of formal written policies or directives. Because these policies or directives were only recently issued and their effectiveness is not yet known, or because we continue to find instances where the policy is not being adhered to, we continued to keep these recommendations open. Regarding the 8 for which we have assessed IRS action and determined it was not sufficient, we believe these could be resolved with additional management follow-up to ensure that corrective actions as envisioned in policy and procedural changes are fully and effectively implemented. In the interim, the underlying weaknesses will likely continue to exist, impairing the quality and timeliness of IRS's financial information and increasing its exposure to losses.

Many of the 78 recommendations in appendix I that we consider to be open were issued within the past year; others, however, have been outstanding for an extended period of time. For example, 36 (46 percent) of the recommendations were made during the past 6 months, while 23 (29 percent) were made over 2 years ago, including 10 from more than 3 years ago and 1 that has remained open for over 9 years. Twenty of the 23 recommendations made over 2 years ago were considered to be short term at the time they were made. The continued existence of the issues that gave rise to these recommendations exposes IRS to loss due to errors or theft, and impairs the reliability and availability of the current, accurate financial information management needs to make decisions.

The majority of the 78 recommendations we consider to be open address one of two broad issues:

- Eleven (14 percent) relate to a material weakness in IRS's property and equipment (P&E) management. In its Federal Managers' Financial Integrity Act (FMFIA) annual assurance statement, IRS has reported a material weakness in P&E management every year since 1983. IRS continues to make significant progress in addressing issues related to P&E, but a number of these issues can only be fully resolved through implementation of an integrated property management system. IRS expects to fully implement such a system by March 2005.

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- Forty-five (58 percent) relate to weaknesses in controls intended to safeguard taxpayer receipts and data. We consider all of these recommendations to be short term in nature. For example, lockbox banks with contracts to process taxpayer receipts continued to hire staff and allow them access to taxpayer receipts and data before the results of their fingerprint checks were received and approved, and IRS was unable to ensure that the taxpayer receipts and data it receives are properly accounted for and safeguarded. These continued weaknesses expose IRS to unnecessary risk of loss and increase taxpayer exposure to losses from financial crimes committed by individuals who inappropriately gain access to confidential personal information.

IRS continues to exhibit a strong commitment to addressing its ongoing financial management problems and has made improvements in recent years that have resulted in the closing of many recommendations. At the same time, the continued existence of the serious financial management weaknesses that gave rise to the remaining open recommendations represents a serious obstacle that IRS needs to overcome in order to achieve effective financial management and have available accurate, timely financial reporting and other information that is useful for day-to-day decision making. This was the overriding intent of FMFIA, the Chief Financial Officers Act of 1990, the Federal Financial Management Improvement Act of 1996 (FFMIA), and other federal financial management reform legislation.

Agency Comments

In commenting on a draft of this report, IRS said it believed that we would be able to confirm its completion of an additional 34 recommendations based on our fiscal year 2003 financial audit. IRS stated that it is actively working to implement corrective actions to address all remaining open recommendations. We will review the effectiveness of these corrective actions and the status of IRS's progress in addressing all open recommendations as part of our fiscal year 2003 financial audit.

Objective, Scope, and Methodology

The objective of this report is to assist IRS management in tracking the status of financial audit and related financial management recommendations and the actions needed to address them. To accomplish this objective, we evaluated the effectiveness of IRS's corrective actions implemented in response to open recommendations during fiscal year 2002 as part of our fiscal years 2002 and 2001 financial audits.⁸ Further details on the scope and methodology of our IRS financial audit work are included in appendix II. We also included recommendations from our recently issued report on IRS and FMS management and oversight of lockbox banks and from our recently issued management report covering new recommendations from our fiscal year 2002 financial audit.⁹ We obtained from IRS its assessment of the status of each recommendation and corrective action taken or planned as of April 2003. We compared IRS's actions to our fiscal year 2002 audit findings and noted any differences between IRS's and our conclusions regarding the status of each recommendation. We conducted our audit in accordance with U.S. generally accepted government auditing standards. We requested comments on a draft of this report from the Commissioner of Internal Revenue or his designee. We received written comments from IRS, which are reprinted in appendix III.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations; Senate Committee on Finance; Senate Committee on Governmental Affairs; Senate Committee on the Budget; Subcommittee on Transportation, Treasury, and General Government, Senate Committee on Appropriations; Subcommittee on Taxation and IRS Oversight, Senate Committee on Finance; Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Senate Committee on Governmental Affairs; House Committee on Appropriations; House Committee on Ways and Means; House Committee on Government Reform; House Committee on the Budget; Subcommittee on Transportation, Treasury, and Independent Agencies, House Committee on Appropriations; Subcommittee on Government Efficiency and Financial Management, House Committee on Government Reform; and Subcommittee on Oversight, House Committee on Ways and Means. In addition, we are sending copies of this report to the

⁸GAO-03-243.

⁹GAO-03-299 and GAO-03-562R.

Chairman and Vice Chairman of the Joint Committee on Taxation, the Secretary of the Treasury, the Director of the Office of Management and Budget, the Chairman of the IRS Oversight Board, and other interested parties. Copies will be made available to others upon request. In addition, the report will be made available at no charge on GAO's Web site at <http://www.gao.gov>.

If you have any questions concerning this report, please contact me at (202) 512-3406. The GAO contact and staff acknowledgments are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Steven J. Sebastian". The signature is written in a cursive style with a large, stylized initial "S".

Steven J. Sebastian
Director
Financial Management and Assurance

Status of GAO Recommendations from Prior IRS Financial Audits and Related Management Reports

| Count | No. | Recommendation | Source report | Status of recommendations | |
|-------|------|---|---|--|---|
| | | | | Per IRS | Per GAO |
| 1 | 93-2 | Determine what information related to automated data processing (ADP) resources, such as equipment condition and remaining useful life, would be most useful to IRS managers for financial management purposes and develop a means for accounting for these data. (long-term) | <i>Financial Management: IRS Lacks Accountability over Its ADP Resources</i> (GAO/AIMD-93-24 , Aug. 5, 1993) | Closed. IRS's new Integrated Financial System (IFS) will include information related to equipment resources and incorporate a means of accounting for such data. Scheduled completion date is March 1, 2005. | Closed. IRS plans to implement an integrated property and equipment (P&E) inventory system in March 2005, which is expected to include information related to ADP resources and incorporate a means of accounting for such data. As a result, we are closing this recommendation and monitoring IRS's efforts in implementing IFS under a related recommendation (99-36). |
| 2 | 94-2 | Monitor implementation of actions to reduce the errors in calculating and reporting manual interest on taxpayer accounts, and test the effectiveness of these actions. (short-term) | <i>Financial Management: Important IRS Revenue Information Is Unavailable or Unreliable</i> (GAO/AIMD-94-22 , Dec. 21, 1993) | Open. As of January 1, 2003, the rollout of the new software was completed. It is available to anyone in the field. Training was provided. IRS reported that during the rollout they implemented a national help desk to support the end user. Additionally, IRS plans for post rollout review to ensure the field is using the tool and using it properly. These reviews will also include an analysis of the accuracy of the interest calculations. Further, IRS will implement the final phase of the program, which allows the software to interface with the Integrated Data Retrieval System (IDRS)/Master File and in turn will greatly reduce human errors associated with the manual input of data. | Open. We will review the effectiveness of IRS's use of software to reduce the miscalculation of manual interest. |

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| Count | No. | Recommendation | Source report | Status of recommendations | |
|-------|------|--|---|---|--|
| | | | | Per IRS | Per GAO |
| 3 | 99-1 | Manually review and eliminate duplicate or other assessments that have already been paid off to assure that all accounts related to a single assessment are appropriately credited for payments received. (short-term) | <i>Internal Revenue Service: Immediate and Long-Term Actions Needed to Improve Financial Management</i> (GAO/AIMD-99-16, Oct. 30, 1998) | Open. Automated Trust Fund Recovery Penalty (ATFRP) programming continues and first phase to automate calculation of the penalties and assessment process to ensure accuracy and assessment timeliness is to be rolled out to all centers July 1, 2003. The second phase to automate the manual steps of the service center process to timely cross-reference payments should be completed by October 31, 2003. IRS is formulating plans to correct current records for which payments have not been posted properly. | Open. Until new systems are in place and fully functional, IRS's ability to track and link multiple Trust Fund Recovery Penalty (TFRP) assessments will depend on service center personnel manually inputting the cross-reference information needed to link these assessments. |
| 4 | 99-3 | Ensure that IRS's modernization blueprint includes developing a subsidiary ledger to accurately and promptly identify, classify, track, and report all IRS unpaid assessments by amount and taxpayer. This subsidiary ledger must also have the capability to distinguish unpaid assessments by category in order to identify those assessments that represent taxes receivable versus compliance assessments and write-offs. In cases involving trust fund recovery penalties, the subsidiary ledger should ensure that (1) the trust fund recovery penalty assessment is appropriately tracked for all taxpayers liable but counted only once for reporting purposes and (2) all payments made are properly credited to the accounts of all individuals assessed for the liability. (short-term) | <i>Internal Revenue Service: Immediate and Long-Term Actions Needed to Improve Financial Management</i> (GAO/AIMD-99-16, Oct. 30, 1998) | Open. To ensure TFRP assessments are tracked and payments are properly credited, IRS is developing the ATFRP program. The first phase to automate the calculation of the penalties and assessment process to ensure accuracy and timeliness of assessments is to be rolled out to centers July 1, 2003. Phase 2, to automate manual steps of service center process to timely cross-reference payments is to be completed by October 31, 2003. This will allow the Chief Financial Officer (CFO) to establish the links to more accurately report the one balance due from these assessments. In addition, IRS's Custodial Accounting Project (CAP) includes development of a Taxpayer Account Sub Ledger which is expected to provide the ability to identify duplicate trust fund recovery assessments, taxes receivable, compliance assessments, and write-offs for financial reporting purposes. Scheduled for completion November 3, 2003. | Open. Until new systems are in place and fully functional, IRS's ability to track and link multiple TFRP assessments will depend on service center personnel manually inputting the cross-reference information needed to link these assessments. This process is labor-intensive and not always effective. In fiscal year 2002, we found that in 21 out of 23 unpaid payroll cases in which payments were not properly recorded to all related accounts, cross-references were present. Even after the subsidiary ledger is implemented, it may require significant manual effort to correct taxpayer records and ensure that it functions as needed. |

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| Count | No. | Recommendation | Source report | Status of recommendations | |
|-------|-------|--|--|--|--|
| | | | | Per IRS | Per GAO |
| 5 | 99-12 | Until the problems with delays in fingerprint checks are resolved, develop and implement a policy prohibiting new employees from being assigned to process receipts until the results of fingerprint checks are received and reviewed by management. (short-term) | <i>Internal Revenue Service: Physical Security over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998) | Closed. In April 2000, IRS issued a policy memo requiring that fingerprint checks be received and results evaluated before an employee in any IRS office can begin working, and it issued a further clarifying memo in August 2000. Completed August 2000. IRS states that compliance with this policy is monitored on a monthly basis in a report provided to the Personnel Security Officer. | Closed. While IRS and Office of Personnel Management hiring data showed that IRS continued to hire employees who had access to taxpayer receipts and data in fiscal year 2002 before it received the results of their fingerprint checks, we noted significant improvement over fiscal year 2001 in implementing the April 2000 policy. We will continue to evaluate the effectiveness of IRS's efforts in our fiscal year 2003 financial audit. |
| 6 | 99-16 | Provide secure containers for service center employees to store "discovered remittances" prior to inventory and submission to the Receipt and Control Branch. Immediately upon discovery, the receipts should be recorded into a control log, the receipts secured in a locked container, and the discovered receipts reconciled to the control log prior to submission for processing. (short-term) | <i>Internal Revenue Service: Physical Security over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998) | Closed. Each service center campus currently has locked containers to store the discovered remittances. In addition, IRS reported that it issued instructions to the service centers on February 17, 1999, to emphasize the handling and recording of these remittances to ensure reconciliation. Completed February 17, 1999. This question is on the Submission Processing Checklist. At least three areas of the service centers are reviewed monthly against the checklist to ensure compliance. | Closed. During our fiscal year 2002 audit we verified that the two service centers we visited were using locked containers to store discovered remittances. These remittances were immediately recorded on a control log and the log was reconciled. |

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|-------|-------|---|--|--|---|
| | | | | Per IRS | Per GAO |
| 7 | 99-17 | Ensure that all returned refund checks are stamped "nonnegotiable" as soon as they are extracted. (short-term) | <i>Internal Revenue Service: Physical Security over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998) | Closed. IRS updated Internal Revenue Manual (IRM) 3.10.72.6(1) to reflect the policy of stamping all returned refund checks "unless for credit to the U.S. Treasury, this instrument is non-negotiable" as soon as they are extracted. In May 2000, IRS added instructions to the IRM that required extraction personnel to place returned refund checks in a designated bucket/bin for manager review to ensure compliance. Completed May 2000. This question is on the Submission Processing Checklist. The service centers are reviewed monthly against the checklist to ensure compliance. | Open. IRS has taken action to revise its IRM. However, IRS's action of establishing a policy does not provide assurance that this policy is consistently adhered to. Although this policy was implemented on October 15, 2001, during our fiscal year 2002 site visits, we found that not all sites were locking or immediately stamping the returned refund checks. Consequently, several employees handled the checks before they were restrictively endorsed, thus increasing their risk of theft. We will continue to evaluate IRS's efforts in our fiscal year 2003 audit. IRS's response only addresses IRS service center campuses. See status of recommendation 03-17 for lockbox response. |
| 8 | 99-19 | Ensure that walk-in payment receipts are recorded in a control log prior to depositing the receipts in the locked container and ensure that the control log information is reconciled to receipts prior to submission of the receipts to another unit for payment processing. To ensure proper segregation of duties, an employee not responsible for logging receipts in the control log should perform the reconciliation. (short-term) | <i>Internal Revenue Service: Physical Security over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998) | Closed. IRS issued guidance to the field in August 1999 and updated the IRM in January 2000 to include instructions for a control log and reconciliation of receipts. Completed January 2000. | Open. IRS has taken action to issue guidance. However, IRS's action of establishing a policy does not provide assurance that this policy is consistently adhered to. During our fiscal year 2002 audit, at one of two field offices visited, the individual reconciling the control log also posted receipts to the log. We will continue to evaluate IRS's efforts in our fiscal year 2003 financial audit. |

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|-------|-------|---|--|--|---|
| | | | | Per IRS | Per GAO |
| 9 | 99-20 | Analyze and determine the factors causing delays in processing and posting TFRP assessments. Once these factors have been determined, IRS should develop procedures to reduce the impact of these factors and to ensure timely posting to all applicable accounts and proper offsetting of refunds against unpaid assessments before issuance. (short-term) | <i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> (GAO/AIMD-99-193, Aug. 4, 1999) | Open. The ATFRP programming is continuing, and the first phase to automate the calculation of the penalties and assessment process to ensure accuracy and timeliness of the assessments should be rolled out to all centers July 1, 2003. The second phase to automate the manual steps of the service center process to timely cross-reference payments should be completed by October 31, 2003. | Open. We will continue to monitor the timeliness and completeness of IRS's processing of these transactions. |
| 10 | 99-22 | Expand IRS's current review of service center deterrent controls to include similar analyses of controls at IRS field offices in areas such as courier security, safeguarding of receipts in locked containers, requirements for fingerprinting employees, and requirements for promptly over stamping checks made out to "IRS" with "Internal Revenue Service" or "United States Treasury." Based on the results, IRS should make appropriate changes to strengthen its physical security controls. (short-term) | <i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> (GAO/AIMD-99-193, Aug. 4, 1999) | Closed. Guidelines were included in the fiscal year 2003 Operating Procedures for Taxpayer Assistance Centers (TAC) for safeguarding receipts in locked containers and over-stamping checks made payable to IRS. Operating procedures state, in part, that all remittances and related returns must be recorded on Form 795, Daily Report of Collection Activity, and placed in a locked container until transmitted to the appropriate Submission Processing Center. Payments in the form of personal checks, cashier checks, and money orders should be made payable to "United States Treasury." Checks made out to IRS or U. S. Treasury must be over-stamped with the words "United States Treasury" immediately upon receipt. IRS is also including these issues in its operational reviews of the TACs. Managers in the TACs are also required to complete an annual review that includes these issues. | Open. IRS reported that it included guidelines in its fiscal year 2003 Operating Procedures for TACs. During our fiscal year 2002 audit, we noted that IRS has primarily focused its review of field offices on the TACs. We are concerned about the limited scope of this review since past audits, as well as our fiscal year 2002 audit, have found control weaknesses over the safeguarding of and accounting for taxpayer receipts and data not only in TAC units but other field office units, such as Small Business/Self Employed. Because IRS's action only addresses TACs and it occurred after the completion of our fiscal year 2002 audit, we will assess the adequacy of IRS's actions during our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 11 | 99-25 | Ensure that additional staff are employed or existing staff appropriately cross-trained to be able to perform the master file extractions and other ad hoc procedures needed for IRS to continually develop reliable balances for financial reporting purposes. (short-term) | <i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> (GAO/AIMD-99-193, Aug. 4, 1999) | Closed. IRS hired three additional contractor staff to work on financial reporting and they have been appropriately cross-trained. This additional contractor support provides the support and backup necessary for preparation of the compensating procedures pending the implementation of CAP/ Customer Account Data Engine (CADE). However, we are concerned that a large number of additional staff are still needed (20 contractors) to fully transition to CAP release 1. The additional staff are scheduled to be hired by October 2003 for CAP Transition Support. The anticipated date for using CAP release 1 (IMF) for the financial audit is October 1, 2004. The anticipated date for using CAP for the entire custodial financial audit (IMF, BMF, NMF, and IRAF) is October 1, 2006. | Open. In fiscal year 2002, IRS continued to utilize compensating procedures to enable it to generate reliable information for financial reporting purposes. It is unclear if staff resources available to perform current compensating procedures pending implementation of CAP/CADE have been sufficiently enhanced. We will assess the adequacy of IRS's actions during our fiscal year 2003 audit. |
| 12 | 99-29 | Develop the data to support meaningful cost information categories and cost-based performance measures. (long-term) | <i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999) | Open. IRS will implement cost accounting as part of release 1 of IFS. Scheduled for completion October 1, 2003. | Open. We will follow up during future audits to assess the effectiveness of the implementation of IFS's cost accounting features. |

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|-------|-------|--|---|---|--|
| | | | | Per IRS | Per GAO |
| 13 | 99-30 | Develop and implement procedures and controls to ensure that detailed P&E records are accurately maintained. These procedures and controls would include ensuring that physical inventories at field locations are effectively performed, including prompt resolution of discrepancies found in the inventories and appropriate adjustment of detailed records. (short-term) | <i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999) | Closed. IRM 2.14.1 was signed and put into effect June 22, 2002. IRS has addressed the reconciliation of discrepancies in the IRM, in the Inventory Certification Plan, and through Asset Management Policy directives posted on IRS's Asset Management Web site. During IRS's inventory cycle, it distributes exception reports showing those discrepancies on a biweekly basis to all Single Point Inventory Functions (SPIF). IRS tracks its progress for working those exception reports using spreadsheets and graphs and shares that information with the Area Directors and SPIFs. | Open. During fiscal year 2002, we noted improvement in the reliability of IRS's P&E inventory records. However, serious weaknesses continued to affect IRS's ability to maintain accountability over its P&E. IRS's procedures for recording P&E acquisitions and disposals did not ensure that transactions were promptly and accurately recorded. For example, of 220 P&E items we selected from inventory records at 22 sites, 22 could not be located at the time of our review. We will evaluate IRS's continuing efforts to achieve accountability over its P&E during our fiscal year 2003 financial audit. |
| 14 | 99-34 | Revise the current capitalization policy to ensure that material P&E acquisitions are not expensed. (short-term) | <i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999) | Closed. IRS P&E capitalization policies and procedures have been documented and include a capitalization threshold for the projected design and development costs of internal use software systems, in accordance with Statement of Federal Financial Accounting Standards No. 10. | Closed. We confirmed that IRS established a capitalization threshold for accumulating and capitalizing P&E hardware costs consistent with the pooling concept currently in use. We will continue to evaluate IRS's efforts to implement a policy for capitalizing costs on a transactional basis as part of recommendation number 99-36. |
| 15 | 99-36 | Make enhancements to IRS financial systems to include recording P&E and capital leases as assets when purchased and to generate detailed records for P&E that reconcile to the financial records. (long-term) | <i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999) | Open. IRS's new IFS, currently targeted for March 2005, will allow recording P&E and capital leases as assets when purchased and will generate detailed records for P&E that will reconcile to the financial records. Scheduled completion is March 1, 2005. | Open. We will continue to evaluate IRS's progress in addressing these issues in its new system. |

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| | | | | Per IRS | Per GAO |
| 16 | 99-38 | Establish procedures for the financial statements to undergo review at the appropriate levels within the CFO's office, with documented evidence of the reviews. (short-term) | <i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999) | Closed. IRS has developed procedures that require two levels of review of the financial statements. Completed August 31, 1999. | Closed. In fiscal year 2002, IRS implemented procedures for reviewing its financial statements. Two levels of review were performed, and the reviews were documented in IRS's financial statement workpapers. As a result of this review process, our review of IRS's year-end financial statements did not identify any material presentation issues. |
| 17 | 01-01 | Better monitor IRS's procedures requiring that a freeze code be entered on all accounts of a taxpayer who IRS has determined is potentially liable for unpaid payroll taxes. This should be done on all such accounts to prevent the inadvertent release of refunds to the taxpayer until IRS determines the validity of the tax liability. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Closed. In September 2001 IRS issued a memorandum to the field emphasizing the timely input of the freeze code and revised the IRM 5.19.7.9.11(3)(i) procedures to allow 30 days for the assessment of the trust fund penalty after input of the freeze code. IRS group managers are responsible for ensuring that the IRM procedures are followed and that adherence is tested when they review cases. | Open. We will continue to monitor IRS's use of freeze codes to assure they are used to prevent refunds from being released to taxpayers who are potentially liable for unpaid payroll taxes. |
| 18 | 01-02 | Revise policies and procedures governing the processing of abatement transactions to establish (1) appropriate time frames for processing abatements, (2) a methodology for monitoring the timeliness of abatement processing, and (3) procedures to identify the causes for delays and formulate corrective actions. Also, examine abatement transactions arising from IRS errors to determine the causes for the errors and, based on this examination, formulate and implement appropriate procedures to reduce the level of errors made when entering data into taxpayer accounts. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Open. IRM 21 provides servicewide guidance on account-related and adjustment workload. Timeliness standards are addressed in IRM 21 and supplemented by an annual program guidance provided by each Business Operating Division. IRS reports provide detailed program-by-program comparisons of current inventory and trends that are used by management and the policy/program analyst to monitor program delivery and status. The quality review process also addresses timeliness of the workload. To address specific causes of delays, IRS will review abatement problems identified during the past year's audit to determine the source of these abatements and the owner of the process to determine if additional corrective actions are needed. | Open. In fiscal year 2002, we continued to find delays in the processing of abatements. We will continue to monitor the effectiveness of IRS's actions during our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 19 | 01-03 | Implement procedures to monitor the age of all pending offers and to require supervisors to follow up with staff to determine within 6 months whether to accept or reject the offer. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Closed. The Centralized Offer in Compromise (COIC) operation began in August 2001. Throughout the first year, excess field staff continued to work to eliminate the backlog of cases that had accumulated in the field. Several process improvements were also implemented in COIC. By October 2002, the field inventory was reduced by 20,000 cases, allowing IRS to reduce field staff by about 500 revenue officers. Performance on the "closed in six months" measure is improving significantly in the first quarter of fiscal year 2003. | Open. Based upon IRS's reported improvements in the timeliness of Offers in Compromise (OIC) processing, we will evaluate the timeliness of IRS's processing of OICs as part of our 2003 audit. |
| 20 | 01-04 | As an alternative to prematurely suspending active collection efforts, and using the best available information, develop reliable cost-benefit data relating to collection efforts for cases with some collection potential. These cost-benefit data would include the full cost associated with the increased collection activity (i.e., salaries, benefits, and administrative support), as well as the expected additional tax collections generated. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Open. IRS implemented computer models to identify the collectibility potential of cases based on specific case characteristics. IRS currently has an open research project that will validate the accuracy of the collectibility indicator used in the risk-based models. The research project will include a validation of the criteria used to determine collection efforts, based on a cost-benefit analysis. Additionally, the cost accounting module of IFS is currently scheduled for full implementation by October 1, 2006. | Open. The key objective of IRS's efforts in developing cost data is to use data to make informed resource allocation decisions. We will continue to monitor IRS's development and use of cost data. |
| 21 | 01-05 | Incorporate into its systems modernization blueprint and strategic planning process the capability to routinely and reliably measure the cost-benefit of its collection activities and make informed resource allocation decisions. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Closed. The capability to measure the cost-benefit of collection activities and to make informed resource allocation decisions has been incorporated into IRS's systems modernization blueprint and strategic planning process. | Closed. IRS incorporated into its systems modernization blueprint the ability to use cost information for cost-benefit analysis. |

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| | | | | Per IRS | Per GAO |
| 22 | 01-06 | Implement procedures to closely monitor the release of tax liens to ensure that they are released within 30 days of the date the related tax liability is fully satisfied. As part of these procedures, IRS should carefully analyze the causes of the delays in releasing tax liens identified by our work and prior work by IRS's former internal audit function and ensure that such procedures effectively address these issues. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Open. On August 26, 2002, the Letter of Understanding with the National Treasury Employees Union (NTEU) was signed. It outlines procedures for the Streamlined Release of Federal Tax Liens Pilot, which is applicable only for the Offer in Compromise unit employees in the compliance centers. Selection and training of the volunteers was completed and the pilot began on January 6, 2003. The decision was made to expand the pilot to include additional lien releases to provide more case data. The completion date was extended to July 1, 2003, to allow time to share the pilot results with NTEU and address any issues identified during the pilot. | Open. In fiscal year 2002 we found 20 instances out of 59 cases tested in which IRS did not release the applicable federal tax lien within the 30-day statutory period. The time between the satisfaction of the liability and release of the lien ranged from 39 days to 1,263 days. We will continue to monitor IRS's release of tax liens and evaluate any new IRS procedures during our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 23 | 01-12 | For (1) IRS's Automated Underreporter and Combined Annual Wage Reporting programs, (2) screening and examination of Earned Income Tax Credit claims, and (3) identifying and collecting previously disbursed improper refunds, use the best available information to develop reliable cost-benefit data to estimate the tax revenue collected by, and the amount of improper refunds returned to, IRS for each dollar spent pursuing these outstanding amounts. These data would include (1) an estimate of the full cost incurred by IRS in performing each of these efforts, including the salaries and benefits of all staff involved, as well as any related nonpersonnel costs, such as supplies and utilities, and (2) the actual amount (a) collected on tax amounts assessed and (b) recovered on improper refunds disbursed. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Open. The key objective of IRS's efforts in developing cost data is to use data to make informed resource allocation decisions. IRS intends to consider cost data associated with its major programs, when developed, in all facets of the strategic planning process. The cost accounting module of IFS is currently scheduled for full implementation by October 1, 2006. | Open. We will review the IFS plans to verify that it includes requirements that meet the objectives of the recommendation. We will continue to monitor IRS's development and use of cost data. |

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| | | | | Per IRS | Per GAO |
| 24 | 01-13 | Incorporate in IRS's systems modernization blueprint and strategic planning process capabilities for routinely and reliably measuring cost-benefit information to make informed resource allocation decisions. (long-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Closed. Under IFS, IRS is building a cost accounting module and strategic enterprise module that aligns the Treasury Integrated Management Information System structure to the Cost Centers, Product and Services, Balance Measures, Production, and eventually to Labor. This is part of the October 1, 2003, deliverable and provides traceability to the systems modernization blueprint. The Deputy Commissioner for Modernization & Chief Information Officer has committed to provide subject matter experts to IFS to help tie the costs associated with its activities and programs at the project areas (tiers A, B, C) and sub project areas. | Closed. IRS incorporated into its systems modernization blueprint the ability to routinely and reliably measure and analyze cost-benefit information. |
| 25 | 01-14 | Work with Treasury's Financial Management Service (FMS) to revise the current lockbox contracts to emphasize security requirements and to specifically require that (1) fingerprint checks be completed before employees begin working, (2) temporary employees be subjected to background checks that are consistent with those required for IRS employees, and (3) at a minimum, lockbox bank courier services meet the service center requirements contained in IRS's November 16, 1999, policy. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Closed. IRS developed lockbox bank security standards included in the calendar year 2002 contract. The standards include physical security, courier, and background investigation standards consistent with IRS campus requirements. IRS worked with FMS and included the standards in the Invitations for Expressions of Interest (IEI) for the new lockbox contract. IRS reported that corrective action was completed on January 29, 2001, with the issuance of the IEI. | Closed. IRS revised the calendar year 2002 lockbox agreements. However, during fiscal year 2002, we continued to find that lockbox bank employees were given access to taxpayer data and receipts before fingerprint results were received and lockbox bank courier services requirements were not consistent with service center requirements. We will monitor IRS's progress in addressing these areas under recommendations 03-19, 03-20, and 03-22. |

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| | | | | Per IRS | Per GAO |
| 26 | 01-15 | Ensure that all IRS units receiving collections have consistent policies and procedures to safeguard and account for cash receipts. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Open. Further review and identification of the policies and procedures requiring consistency at field offices is still underway. Completion date has been revised to August 29, 2003. | Open. During our fiscal year 2002 site visits, we found that not all collection units within the sites stored receipts and unopened mail containing potential taxpayer receipts and data in locked containers during operating hours. During our fiscal year 2003 financial audit, we will continue to monitor IRS's progress in developing and implementing policies that are consistent throughout IRS to safeguard and account for cash. |
| 27 | 01-17 | Develop a subsidiary ledger for leasehold improvements and implement procedures to record leasehold improvement costs as they occur. (long-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Open. The new IFS will incorporate a subsidiary ledger for leasehold improvements. Scheduled completion is March 1, 2005. | Open. We will continue to evaluate the effectiveness of IRS's efforts in this area. |
| 28 | 01-18 | Implement procedures and controls to ensure that expenditures for P&E are charged to the correct accounting codes to provide reliable records for expenditures as a basis of extracting the costs for major systems and leasehold improvements. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Open. A module of IRS's new IFS, scheduled for implementation in October 2003, will incorporate procedures that will help ensure correct and direct posting of all P&E to the proper accounting codes as transactions occur. Routine and timely reporting of leasehold improvements will be addressed in a subsequent release of IFS scheduled for implementation in fiscal year 2005. In the interim, IRS has implemented processes to identify, extract, and reclassify capitalized P&E transactions into the proper general ledger accounts. | Open. During our fiscal year 2002 audit, we found that IRS, with contractor assistance, implemented interim procedures to identify, extract, and reclassify P&E costs, which improved the timeliness of recording P&E transactions in accounting records. Nonetheless, IRS continued to lack current, reliable P&E information on an ongoing basis because P&E transactions were not properly recorded as transactions occurred. In addition, we found that charges to leasehold improvement accounting codes were not always correct. We will continue to monitor IRS's progress in implementing IFS during our fiscal year 2003 audit. |

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| | | | | Per IRS | Per GAO |
| 29 | 01-21 | Consolidate and update the P&E policies and procedures currently documented in various handbooks and policy memorandums into a comprehensive document that personnel responsible for maintaining inventory records can use as a reference. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Open. IRM 2.14.1, which established policies and procedures for information technology (IT) assets, was signed and put into effect on June 22, 2002. IRS is in the process of incorporating policies and procedures for non-IT assets into the IRM. | Open. We verified that IRS issued a revised IRM to establish accountability in the receipt, distribution, excess, and/or disposal of IT hardware, software, and telecommunication equipment. During our fiscal year 2003 audit, we will monitor IRS's progress in developing a comprehensive document that provides policies and procedures for all P&E. |
| 30 | 01-26 | Review, and correct as necessary, data in inventory records, such as serial or model numbers and manufacturer names, during periodic inventories of P&E. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Closed. IRM 2.14.1, Information Technology Asset Management, was signed and put into effect on June 22, 2002. IRM 2.14.1 addresses the review and correction of data in the inventory records. IRM 2.14.1.1.7 contains the Quality Assurance Plan and guidelines for SPIF function employees to follow to verify the adequacy and accuracy of IRS property management systems. The Quality Assurance Plan specified in IRM 2.14.1 supports the accuracy of IRS property records and facilitates the continuous process improvement in the receipt, distribution, excess, and disposal of property, ADP hardware, software, and telecommunications equipment throughout IRS. | Closed. We verified that IRS's revised IRM 2.14.1 contains procedures for validating data in inventory records. We also found improvement in the accuracy of data, such as serial and model numbers and manufacturer names recorded on IRS's inventory records, during our fiscal year 2002 audit. |
| 31 | 01-27 | Perform sufficient supervisory reviews to help ensure that transactions recorded on P&E inventory records are accurately entered into subsidiary records and appropriately supported by documentation. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Open. IRS does not plan to implement the IFS Property Module until March 2005 and until that time will not have a fully integrated system with subsidiary records. Work continues on implementing the Electronic Packing Slip project, which will help eliminate errors and ensure that P&E inventory records are accurately accounted for in the system. | Open. We continued to find that P&E transactions were not always promptly and accurately recorded. We will evaluate the effectiveness of IRS's actions during our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 32 | 01-33 | Establish policies and procedures to ensure that all administrative and, to the extent possible, custodial transactions are promptly recorded in the general ledger, preferably within 30 days of the transaction. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Open. For custodial transactions, as of June 1, 2002, Revenue Systems/Interim Revenue Accounting Control System (IRACS) is using a spreadsheet to ensure that all documents are received and recordable transactions are input into IRACS prior to month-end activities. The capability for recording custodial transactions for taxes receivable and refunds payable at the detail level will not be available until full implementation of CAP with integration to IFS. Procedures are being developed for the reporting of accruals for taxes receivable and refunds payable on the quarterly financial statements beginning fiscal year 2004. Additionally, for administrative transactions, the IRS is in the midst of an initiative to identify all major nonpayroll expense transactions that can be accrued and/or recorded on an interim basis. The plan to record additional interim accruals, without giving consideration to any potential problems attributable to the IFS implementation, is scheduled to be completed prior to the fourth quarter of fiscal year 2003. | Open. IRS's response recognizes the continued existence of this condition and cites a plan of action to resolve it. We will continue to monitor IRS's progress in this area during our fiscal year 2003 audit. |

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| | | | | Per IRS | Per GAO |
| 33 | 01-34 | Incorporate into its systems modernization plan requirements and specifications for a general ledger system that (1) accumulates and summarizes IRS's custodial and administrative transactions for financial reporting purposes, (2) is integrated with its supporting subsidiary records, and (3) is fully compliant with the U.S. Standard General Ledger at the transaction level. (short-term) | <i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000) | Closed. IRS will implement IFS, which will be fully compliant with the U.S. Standard General Ledger at the transaction level. Scheduled completion is October 1, 2003. It will be populated with multiple releases of CAP. | Closed. We have reviewed the role that Enterprise Data Warehouse (EDW)/CAP will play in resolving custodial financial management issues. EDW/CAP, when implemented, is designed to feed the IFS general ledger daily summarized custodial financial information. It is expected to provide (1) the ability to generate timely and reliable custodial financial information with full traceability between the detail and the custodial financial statement, and (2) full traceability between the detail taxpayer transactions to the U.S. Standard General Ledger in IFS. We will assess the implementation of these projects in future audits. |
| 34 | 01-39 | Develop a mechanism to track and report the actual costs associated with reimbursable activities. (short-term) | <i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001) | Open. IRS has developed guidance for costing reimbursable agreements. This guidance includes instructions on tracking labor and was completed February 1, 2002. Additionally, IFS will also provide the systemic mechanism to track and report the actual costs associated with reimbursable activities. The target implementation date is October 1, 2003. | Open. We confirmed that IRS completed procedures for costing reimbursable agreements that provides the basic framework for the accumulation of these costs. We will follow up during our fiscal year 2003 audit to determine if IRS has procedures in place to ensure the framework is used to develop costing information for reimbursable agreements. |
| 35 | 01-40 | Establish procedures to periodically reconcile the subsidiary records to the control account for reimbursable receivables to ensure that the balance is adequately supported. (short-term) | <i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001) | Closed. Since March 2002, and each month thereafter, IRS reported that it has reconciled the reimbursable receivable accounts to the control accounts. The reconciliation consists of comparison of the Automated Financial System Control Totals to the general ledger data received from the vendor. These totals are reconciled to correct improper postings, mapping issues, timing differences, and posting errors. | Closed. IRS addressed this recommendation by implementing procedures in fiscal year 2002 to monthly reconcile its subsidiary records to the control account for reimbursable receivables. |

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| | | | | Per IRS | Per GAO |
| 36 | 01-41 | Routinely age and review currently open reimbursable receivable accounts to identify accounts that are no longer valid or collectible. (short-term) | <i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001) | Closed. IRS is currently aging and reviewing open reimbursable receivable accounts. Completed July 31, 2001. | Closed. IRS addressed this recommendation by initiating action in fiscal year 2001 to regularly age and review its reimbursable receivable accounts. |
| 37 | 01-43 | Ensure that IRS personnel maintain effective oversight of the completeness and accuracy of contractor-generated information. (short-term) | <i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001) | Closed. There is currently considerable review and supervision of contractor-generated information. | Closed. During our fiscal year 2002 audit, we found that the information generated by the contractor had been effectively reviewed by IRS personnel. |
| 38 | 01-44 | Ensure compliance with Treasury regulations requiring that all transfers of funds between appropriations be properly approved and documented prior to being recorded in the financial records. (short-term) | <i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001) | Closed. The Budget Execution Procedures book includes instructions for processing the SF1151 and Warrants. It states that funds can only be transferred after IRS has received approval from Treasury. This procedure was issued on May 25, 2001. | Closed. Based on audit work for fiscal years 2001 and 2002, all transfers of funds between appropriations have been properly approved and documented prior to being recorded in the financial records. |
| 39 | 02-01 | Implement policies and procedures to record capitalizable acquisition costs for P&E, capital leases, leasehold improvements, and major systems in the appropriate P&E general ledger accounts as transactions occur. (short-term) | <i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001) | Open. IRS P&E capitalization policies and procedures provide for use of the pooling concept to capitalize costs associated with ADP equipment with a useful life of greater than 1 year. The pooling method is used, as opposed to the preferred process of capturing costs on a transactional basis, due to system limitations. IRS will implement capitalization of costs as transactions occur when the new IFS Integrated Asset Management module is implemented in March 2005. | Open. We will continue to monitor IRS's progress in this area during future audits. |

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| | | | | Per IRS | Per GAO |
| 40 | 02-03 | Perform periodic reviews to monitor and ensure that obligations are promptly established in the accounting system. Such reviews would assist IRS in maintaining accurate and complete records of its obligations and in reducing the risk of obligations exceeding available funding. (short-term) | <i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001) | Closed. IRS issued guidance to all business units requesting a complete review of obligations to be completed monthly and certified quarterly and a complete review of commitments to be certified quarterly. Obligation guidance was completed June 26, 2001. Commitment guidance was completed December 31, 2002. | Open. During fiscal year 2002, IRS developed a listing of unliquidated commitments to use as a tool for ensuring the related obligations are promptly recorded in its accounting system. However, we continued to find instances where IRS did not promptly record obligations in its accounting system. We will continue to monitor the effectiveness of IRS's corrective actions during our fiscal year 2003 financial audit. |
| 41 | 02-05 | Develop, document, and implement policies and procedures to require that reconciliations between proprietary and budgetary accounts be performed monthly so that differences can be identified in a timely manner, and, if necessary, adjusted. (short-term) | <i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001) | Open. Policies and procedures addressing monthly reconciliations were documented on June 1, 2002. Monthly reconciliations are currently being prepared between proprietary and budgetary accounts and differences are adjusted when identified. During fiscal year 2003 IRS is instituting new accrual procedures that should reduce the amount in suspense at interim reporting periods. IRS will monitor this new process during the year and evaluate its effectiveness. | Open. Quarterly reconciliations between budgetary and proprietary accounts are performed and documented. Informal reconciliations are prepared monthly. However, not all identified adjustments were recorded at interim periods during fiscal year 2002. For example, certain adjustments identified at interim periods, such as receipts into the general fund and user fees, as well as amounts in suspense, were not posted until year-end. We will continue to monitor IRS's progress in this area during our fiscal year 2003 audit. |
| 42 | 02-06 | Develop, document, and implement policies and procedures to require that routine reviews and analyses of general ledger account balances be conducted to promptly identify errors and omissions. (short-term) | <i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001) | Closed. Quarterly reviews of general ledger account balances and certification of those balances are being completed routinely. Policies and procedures addressing quarterly reviews were documented on June 1, 2002. | Closed. In fiscal year 2002, IRS issued a policy memorandum requiring quarterly reviews of the general ledger account balances and requiring that workpapers be established to document the reviews. This significantly reduced the amount of adjustments required at year-end and improved the quality of interim data. |

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| | | | | Per IRS | Per GAO |
| 43 | 02-07 | Develop, document, and implement policies and procedures to require that corrections and adjusting entries be recorded throughout the year to reduce the magnitude of year-end adjustments and improve the reliability of interim financial data. (short-term) | <i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001) | Closed. Adjustments and corrections are now being entered into the financial system routinely on a quarterly basis. Policies and procedures addressing recording of corrections and adjusting entries were documented on June 1, 2002. | Closed. In fiscal year 2002, other than adjustments arising from reconciliations between the proprietary and budgetary accounts, IRS began recording corrections and adjusting entries when they were identified rather than at year end, thus reducing the magnitude of year-end adjustments. |
| 44 | 02-08 | Implement policies and procedures to require that all employees itemize on their time cards the time spent on specific projects. (long-term) | <i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001) | Open. IRS agreed with the objective of this recommendation which is to allow it to collect and report the full payroll costs associated with its activities. While IRS indicated that most of its employees already itemize their time charges in functional tracking systems, it has acknowledged that full implementation of the IFS cost accounting module is required to close this recommendation. The cost accounting module is currently scheduled for full implementation by October 1, 2006. | Open. We confirmed that IRS employees use functional tracking (workload management) systems to itemize and track their time charges. However, this recommendation remains open because its objective is to allow IRS to collect and report the full payroll costs associated with its activities. We found that the functional tracking systems are insufficient for this purpose because they do not interface with each other or the general ledger to allow management to use them to readily accumulate the time charged to specific projects. The new cost accounting module of IFS is expected to track IRS's costs at the activity level and, thus, may address the recommendation. We will monitor IRS's progress in implementing the IFS cost accounting module. |
| 45 | 02-09 | Implement policies and procedures to allocate nonpersonnel costs to programs and activities on a routine basis throughout the year. (short-term) | <i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001) | Open. IRS agreed with this recommendation and indicated plans to address this issue with the cost accounting module that will be part of IFS. Scheduled completion is October 1, 2003. | Open. We will verify that the IFS plans include requirements that meet the objectives of this recommendation, and we will follow up on its implementation once IFS is completed. |

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| | | | | Per IRS | Per GAO |
| 46 | 02-10 | Document reviews performed to validate that performance data are complete, accurate, and reliable. (short-term) | <i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001) | Closed. A memorandum was issued by the CFO on March 8, 2002, requiring certification by designated officials that performance data reported on a monthly basis has been validated and verified. In addition, on September 30, 2002, we completed work on the expanded data dictionary that includes information concerning management controls that are in place to ensure that the data submitted monthly and for all external reporting purposes are valid and verified. | Closed. In fiscal year 2002, IRS completed documenting its key performance measures. As a result, by the end of fiscal year 2002, IRS had documented key controls in place to validate that performance data reported in its Management Discussion and Analysis are complete, accurate, and reliable. |
| 47 | 02-11 | Develop policies and procedures to require that field office employees provide taxpayers receipts for all walk-in payments. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Closed. In February 2002, Wage and Investment (W&I) Communication, Assistance, Research and Education (CARE) issued a directive to field office area directors to instruct employees to issue receipts to taxpayers upon request. The same directive instructed area directors to install signs to advise taxpayers that receipts would be provided upon request. | Open. Once we receive and verify the content of the February 2002 directive, we will close this recommendation. During our fiscal year 2002 audit, we did not identify any problems with the field office employees providing taxpayers receipts for all walk-in payments. |
| 48 | 02-12 | Develop policies and procedures to require that field offices post signs in the most visible locations to remind taxpayers to obtain receipts for payments. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Closed. In February 2002, W&I CARE issued a directive to field office area directors to advise them to install Document 10161 in field offices. Document 10161 states, "Let us know if you need a receipt; one is available upon request." | Open. IRS reported that it has issued guidance, but this action does not by itself provide assurance that the policy is consistently adhered to. During our site visits, at one of two sites no signs were posted in the TAC to notify taxpayers that they can request a receipt. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 49 | 02-13 | Develop policies and procedures to require that two employees be present when payments from drop boxes are collected and logged. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Closed. This recommendation is no longer relevant because in July 2002, IRS issued an IRM procedural update removing drop boxes from all TACs. | Closed. This recommendation is no longer relevant because in July 2002, IRS issued an IRM procedural update removing drop boxes from all TACs. |

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| | | | | Per IRS | Per GAO |
| 50 | 02-14 | Develop policies and procedures to require that IRS and lockbox employees performing final candling record receipts in a control log at the time of discovery, recording at a minimum the total number of payments found, the amount of each payment, and the taxpayer who submitted the payment. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Closed. The 2003 Lockbox Processing Guidelines (LPG), 3.2.8.1(1), directs "Lockbox employees to complete Form 9535, Record of Lockbox Discovered Remittance and Correspondence" when receipts are discovered during candling. The employee must record the type of document and remittance found, dollar amount, taxpayer's name and address, Social Security Number/Taxpayer Identification Number, and discoverer's name on Form 9535. Each remittance must be listed as a separate entry. The 2003 Extracting, Sorting & Numbering IRM, 3.10.72.6.2, requires "management to maintain a log identifying the employees responsible for overlooking the items and items discovered." The 2003 LPG was updated January 31, 2003. | Open. During our fiscal year 2002 audit we found that staff at the two service center campuses and several lockbox banks we visited did not immediately log items found during final candling. Because IRS's action occurred after the completion of our fiscal year 2002 audit, we will assess the adequacy of IRS's actions during our fiscal year 2003 audit. |
| 51 | 02-15 | Develop policies and procedures to require that IRS and lockbox managers or designated officials reconcile logs of payments found during final candling to the related receipts and documents. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Closed. The 2003 LPG, 3.2.8.1(1), directs the responsible manager to daily validate Form 9535. The 2003 Extracting, Sorting & Numbering IRM, 3.10.72.6.2(1)e., states, "management shall immediately reconcile the discovered remittances with the final candling log." The 2003 LPG was updated January 3, 2003. | Open. During our fiscal year 2002 audit at both service center campuses we visited and at several lockbox banks, items found during final candling were not reconciled. Because IRS's action occurred after the completion of our fiscal year 2002 audit, we will assess the adequacy of IRS's actions during our fiscal year 2003 financial audit. |
| 52 | 02-16 | Ensure that field office management complies with existing receipt control policies that require a segregation of duties between employees who prepare control logs for walk-in payments and employees who reconcile the control logs to the actual payments. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Closed. W&I CARE has issued guidance to TAC managers requiring the separation of duties. Further, this item is included in W&I CARE self-assessment that is to be conducted periodically. | Open. IRS reported it has issued guidance. However, this action does not by itself provide assurance that this policy is consistently adhered to. During our fiscal year 2002 audit, at one of two sites we visited, the individual who reconciled the log also posted receipts to the log. We will continue to evaluate IRS's efforts in our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 53 | 02-17 | Clarify that the intent of the requirement for background investigations is meant to apply to personnel being entrusted with taxpayer receipts and information rather than just personnel being granted access to an IRS facility. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Open. On October 3, 2002, the Deputy Commissioner issued a memorandum, "Clarification of Background Investigation Requirements for Contractors" to clarify that the intent of the requirement for background investigations is meant to apply to personnel being entrusted with taxpayer receipts and information rather than just personnel being granted access to an IRS facility. Additionally, banks have been required to ensure that courier services employees working with the lockbox facility are getting Federal Bureau of Investigation (FBI) fingerprint checks (LPG, January 2003). The issue of background investigations is pending OSC committee decision. | Open. During our fiscal year 2002 audit we found that couriers at one of two sites had not received a background investigation, or at a minimum, a fingerprint check. IRS issued a memorandum on October 3, 2002, clarifying the intent of the background investigation requirement. Because IRS's action occurred after the completion of our fiscal year 2002 audit, we will assess the adequacy of IRS's actions during our fiscal year 2003 audit. |
| 54 | 02-18 | Work with the National Finance Center (NFC) to resolve the technical limitations that exist within the Security Entry and Tracking System (SETS) database and continue to periodically review SETS data to detect and correct errors. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Open. On July 9, 2002, a memorandum was sent to the Director, Office of Human Resources Enterprise Solutions (OHRES), regarding the need to work with NFC to correct SETS. On September 3, 2002, we received a response from OHRES, committing to work with NFC to resolve issues. Additionally, OHRES committed to develop a security module within HR Connect that will replace SETS. A task group met in November to identify system requirements. | Open. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 55 | 02-19 | Issue a formal reminder of existing IRS manual refund procedures to supervisors and staff. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Closed. IRS issued an information alert reminding staff to monitor manual refunds to prevent issuance of duplicate refunds and to monitor their reviews. Completed December 6, 2001. | Closed. We reviewed a copy of the formal reminder. We also found that most IRS employees we interviewed at two service centers were aware of the issuance of the alert. |

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| | | | | Per IRS | Per GAO |
| 56 | 02-20 | Establish procedures to track the release of liens up to the point of delivery to the local jurisdiction to ensure liens are released timely to avoid unduly burdening taxpayers once they have satisfied their tax liability. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Closed. IRS issued a memorandum dated January 28, 2003, with instructions for tracking when the certificates of lien release leave our immediate control. Certificates must be generated at least weekly. Documents must be carried to the mailing destination, i.e., U.S. Post Office or IRS mailroom. IRS must secure a date stamp on the second copy of the billing voucher which it will retain for at least 1 year after the processing year. | Open. IRS's instructions were issued after the end of our 2002 audit. We will review the implementation of IRS's corrective actions during our fiscal year 2003 financial audit. |
| 57 | 02-21 | Ensure that complete skeletal records are created and available for the SPIF units to update upon receipt of P&E. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Open. Currently, suppliers provide IRS with Excel spreadsheets that are reviewed, adjusted as necessary, then placed in a format to "batch add" into the Information Technology Asset Management System (ITAMS) database. The "batch add" process goes a long way to establishing the skeletal records. IRS has developed a record layout for suppliers to provide "electronic packing slip" information when equipment is purchased and shipped. The procured asset record will be established on ITAMS before it is received at the loading dock. The establishment of the skeletal records on ITAMS via an electronic packing slip feed from our suppliers is key for cradle-to-grave asset stewardship and a high priority. Additionally, the automated interfaces that "reach out and touch" IRS's network asset is also a high priority. IRS is working to ensure that information from automated interfaces to network systems are properly captured and used to update the existence of assets recorded in ITAMS. Scheduled completion for implementation of automated updates to ITAMS is June 1, 2003. | Open. During our fiscal year 2002 audit, we found that skeletal records were not always available for SPIF units to update upon receipt of P&E. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 58 | 02-22 | Develop procedures and edit checks to reduce the likelihood of invalid property records. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Closed. IRS has developed procedures to reduce the possibility of invalid property records. IRS has published those procedures in IRM 2.14.1, the inventory certification plan, and Asset Management Policy Directives. During its inventory cycle, IRS distributes exception reports showing discrepancies to our SPIF functions. IRS tracks its progress on those exception reports using spreadsheets and graphs and provides that information to the area directors and SPIFs. | Closed. IRS issued a revised IRM that includes procedures for conducting an inventory and performing quality assurance reviews that reduce the likelihood of invalid property records. During our fiscal year 2002 audit, we did not find significant numbers of invalid property records. |
| 59 | 02-23 | Develop and implement procedures to ensure that procurement award and requisition numbers recorded on property records are complete, accurate, and linked to the accounting records. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Open. Information Technology Services is working with Procurement and existing vendors to establish a reliable vehicle for transmitting packing slip information. IRS reported that it will continue to work with Procurement to see that these fields are made a part of every procurement and that the necessary procurement award and requisition numbers are established on ITAMS at the time of purchase via an electronic feed from Procurement and matched via the electronic packing slip IRS will receive from the ADP equipment provider. | Open. During our fiscal year 2002 audit, we continued to find that accounting transactions could not always be linked to P&E inventory records. We will continue to review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 60 | 02-24 | Record software licenses in IRS's property management system. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Open. IRS is executing an action plan that will allow it to identify, record, and account for software. | Open. In fiscal year 2002, IRS initiated a process to identify and record software licenses. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 61 | 02-25 | Develop an approach to assess IRS's compliance with the terms of these software licenses. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Open. IRS is developing policies and procedures for tracking compliance with the terms of software licenses. | Open. In fiscal year 2002, IRS initiated a process to inventory software licenses and assess compliance with the terms of the licenses. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 62 | 02-26 | Ensure that, in the absence of an integrated general ledger system for IRS's custodial and administrative activities, IRS strengthens monitoring and analysis of receivables to ensure that receivables are not being erroneously recorded as a result of the lack of integration between these two activities. (short-term) | <i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002) | Closed. IRS agrees with this recommendation and has taken steps to better manage reimbursable activity. IRS is now reconciling all reimbursable receivable accounts with the appropriate general ledger accounts monthly and is monitoring activities between custodial and administrative accounts as part of this process. Additionally, IRS has implemented a process to routinely review open receivables and take action to write off amounts, as appropriate. | Open. IRS's corrective actions to address this issue did not become effective until the fourth quarter of fiscal year 2002, which was after we had completed our internal control work related to reimbursable activity. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 63 | 03-01 | Document IRS's oversight roles and responsibilities in agency policy and procedure manuals and determine appropriate level of IRS oversight of lockbox sites throughout the year, particularly during peak processing periods. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. IRS is taking this recommendation under advisement and will respond formally to this issue upon approval and implementation of the IRS lockbox reorganization. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 64 | 03-02 | Establish and document guidelines and procedures in policy and procedure manuals for implementing the new penalty provision for lockbox banks to reimburse the government for direct costs incurred in correcting errors made by lockbox banks. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. IRS is taking this recommendation under advisement and will work with FMS to establish an effective reimbursement process. IRS will respond formally to this issue upon approval and implementation of the IRS lockbox reorganization. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 65 | 03-03 | Finalize and document the recently developed waiver process in IRS policy and procedure manuals and ensure that decisions on requests for waivers are formally and promptly communicated to lockbox management. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. The new waiver process is described in section 2.1.3.1 of the January 2003 LPG document. The internal process between IRS and FMS is being documented by the Office of Program Evaluation and Risk Analysis in the Security Memorandum of Understanding (MOU). Expected completion date is April 1, 2003. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 66 | 03-04 | Establish and document a process in IRS policy and procedure manuals to ensure that lockbox bank management formally responds to IRS oversight findings and recommendations promptly and that corrective actions taken by lockbox bank management are appropriate. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. The banks are required to officially respond to any deficiencies identified by the IRS and FMS security team. Since FMS holds the agreement with the banks, FMS will take the lead on formally establishing a database to keep track of the findings and require corrective actions to be taken by the bank. A copy of the report and response will be forwarded to IRS. The internal process between IRS and FMS will be documented in the Security MOU. Expected completion date of the Security MOU is April 1, 2003. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 67 | 03-05 | Establish and document a process in IRS policy and procedure manuals to ensure that IRS officials with the appropriate levels of expertise continue to participate in announced and unannounced security reviews of lockbox banks. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. The Security MOU is in draft format. This MOU will document the roles and responsibilities of the Security Review team. The Security Review team consists of FMS and IRS security experts. Expected completion date is April 1, 2003. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 68 | 03-06 | Ensure that the results of on-site compliance reviews are completed and promptly submitted to IRS's National Office. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. Lockbox banks are undergoing security reviews in 2003. The banks will be required to officially respond to the items identified in the security report. Security reviews are based on the lockbox sites' compliance with the LPG. Since FMS holds the agreement with the banks, FMS will take the lead on formally establishing a database to keep track of the findings and require corrective actions to be taken by the lockbox bank management. The internal process between IRS and FMS is documented in the draft Security MOU. IRS is represented on the security review team, provides input related to the review to FMS, and then receives a copy of the final response sent by FMS to the lockbox bank. Expected completion is April 1, 2003. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 69 | 03-07 | Revise the guidance used for compliance reviews so it requires reviewers to (1) determine whether lockbox contractors, such as couriers, have completed and obtained favorable results on IRS fingerprint checks and (2) obtain and review all relevant logs for cash payments and candled items to ensure that all payments are accounted for. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. IRS updated the security checklist to instruct reviewers to determine whether lockbox contractors, such as couriers, have completed and obtained favorable results on IRS fingerprint checks and obtain and review all relevant logs for cash payments and candled items. IRS also plans to update the Lockbox Coordinator on-site reviews to include specific review of courier documentation and the candling log. Review of the cash log is currently required. | Open. This is a new recommendation. During our fiscal year 2003 financial audit, we will review IRS's security checklist used by the review teams during their security visits. We will also review the lockbox coordinators' on-site reviews. |

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| | | | | Per IRS | Per GAO |
| 70 | 03-08 | Assign individuals, other than the lockbox coordinators, responsibility for completing on-site performance reviews. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | IRS disagrees with this recommendation. The on-site performance reviews will continue to be conducted by the IRS Coordinator Staff. The Lockbox Coordinators are IRS's official representatives on site during the peak processing periods. The coordinators are qualified and trained to complete the banks performance review using the Data Collection Instrument. The coordinators know and understand how the taxpayer remittance should be processed and handled for IRS requirements. | Open. This is a new recommendation. IRS agreed with this recommendation in its comments on the lockbox report, dated December 20, 2002. We agree that the coordinators are qualified and trained to complete the banks' performance reviews and that they understand how taxpayer remittances should be processed and handled for IRS requirements. However, we believe the current lockbox coordinator structure does not alleviate the potential conflict of competing responsibilities. |
| 71 | 03-09 | Require lockbox management to ensure that perimeter doors are locked and alarms on perimeter doors are functioning and that IRS take steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. Security teams consisting of individuals from FMS, Agencywide Shared Services, and IRS are responsible for on-site security reviews. Lockbox sites are receiving announced and unannounced security reviews as of November 2002. These reviews will monitor management's compliance with this requirement. | Open. This is a new recommendation. IRS needs to ensure that previously existing requirements are consistently and routinely adhered to by lockbox management at all of the lockbox sites. During our review of lockbox banks in 2002, we found sites that were not adhering to this requirement. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 72 | 03-10 | Require lockbox management to ensure that guards are responsive to alarms and that IRS takes steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. The requirement to ensure that door alarms are responded to by the guards was previously established in the 2002 LPG issued January 1, 2002. During on-site reviews, IRS and FMS security teams observe the guards responding to door alarms, etc., by performing tests during on-site security review. Documented in Section 2.4 of LPG issued January 31, 2003. | Open. This is a new recommendation. IRS needs to ensure that this previously existing requirement is consistently and routinely adhered to by lockbox management at all of the lockbox sites. During our review of lockbox banks in 2002, we found sites that were not adhering to this requirement. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 73 | 03-11 | Require lockbox management to ensure that employees' identity and employment status are verified prior to granting access to the processing floor and that IRS take steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. The requirement to ensure that employee identity and employment status are verified prior to granting access to the processing floor was previously listed in the 2002 LPG issued January 1, 2002. During the on-site security reviews, the security review teams ensure the banks meet this requirement by reviewing personnel folders for temporary employees, bank officials, couriers, and guards. Documented in Section 2.5 of the 2003 LPG issued January 31, 2003. | Open. This is a new recommendation. IRS needs to ensure that this previously existing requirement is consistently and routinely adhered to by lockbox management at all of the lockbox sites. During our review of lockbox banks in 2002, we found sites that were not adhering to this requirement. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 74 | 03-12 | Require lockbox management to ensure that visitor access to and activity in the processing area are adequately controlled and that IRS take steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. The requirement to control visitor access was previously listed in the 2002 LPG issued January 1, 2002. During the on-site security reviews, IRS/FMS security teams observe the sites' handling of visitors to ensure that the banks meet this requirement. Additionally, during peak visits a lockbox coordinator observes adherence to this requirement. Documented in Section 2.6.2 of the 2003 LPG issued January 31, 2003. | Open. This is a new recommendation. IRS needs to ensure that this previously existing requirement is consistently and routinely adhered to by lockbox management at all of the lockbox sites. During our review of lockbox banks in 2002, we found sites that were not adhering to this requirement. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| | | | | Per IRS | Per GAO |
| 75 | 03-13 | Require lockbox management to ensure that employee access and items brought into and out of the processing area are closely monitored by guards and that IRS take steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. The requirement to ensure that employee access and items brought into and out of the processing area are closely monitored by guards was previously listed in the 2002 LPG issued January 1, 2002. Additionally, Post Orders are required to be developed and reviewed with security guards prior to each peak to reinforce this requirement. On-site security review, as well as Lockbox Coordinator visits, monitors the adherence to this requirement. During the on-site security reviews, IRS and FMS security teams observe the sites handling of visitors to ensure the banks meet this requirement. Documented in Section 2.7 of the 2003 LPG issued January 31, 2003. | Open. This is a new recommendation. IRS needs to ensure that this previously existing requirement is consistently and routinely adhered to by lockbox management at all of the lockbox sites. During our review of lockbox banks in 2002, we found sites that were not adhering to this requirement. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 76 | 03-14 | Require lockbox management to ensure that surveillance cameras and monitors are installed in ways that allow for effective, real-time monitoring of lockbox operations and that IRS take steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. The requirement to ensure that surveillance cameras and monitors are installed to permit observation of critical areas (internal/external) such as loading docks, secure storage areas, mail rooms extraction areas, etc. was established in the 2002 LPG issued January 1, 2002. In April 2002, we added a requirement for the guards to monitor CCTV activity on an ongoing basis whenever guards are not engaged in performing other security duties. We will review the existing requirements to determine its sufficiency. FMS and IRS security teams review tape inventories and inspect the camera coverage and quality during on-site security visits. Documented in Section 2.7.5 of the 2003 LPG issued January 31, 2003. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| Count | No. | Recommendation | Source report | Status of recommendations | |
|-------|-------|---|---|--|--|
| | | | | Per IRS | Per GAO |
| 77 | 03-15 | Require lockbox management to ensure that envelopes are properly candled and that IRS take steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. These procedures were updated in the 2003 LPG, Section 3.5.1.1, effective January 1, 2003. Candling procedures are clarified to ensure envelopes are properly candled. Adherence to the requirements was added to the Lockbox Security Check Sheet. Adherence will be monitored by the lockbox FMS and IRS security team announced and unannounced visits. | Open. This is a new recommendation. IRS needs to ensure that previously existing requirements, updated for any clarifications, are consistently and routinely adhered to by lockbox management at all of the lockbox sites. During our review of lockbox banks in 2002, we found sites that were not adhering to candling requirements. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 78 | 03-16 | Require lockbox management to perform and adequately document candling reviews and that IRS take steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. The requirement to perform and adequately document candling reviews was added in the 2003 LPG, Section 3.2.8, effective January 1, 2003. Adherence to the requirements was added to the Lockbox Security Check Sheet. Adherence will be monitored by the lockbox FMS and IRS security team during announced and unannounced visits. Additionally Lockbox Coordinators review candling as part of their quality review checks during each peak. | Open. This is a new recommendation. IRS needs to ensure that previously existing requirements, and any updates to these requirements, are consistently and routinely adhered to by lockbox management at all of the lockbox sites. During our review of lockbox banks in 2002, we found sites that were not adhering to these requirements. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 79 | 03-17 | Require that returned refund checks are restrictively endorsed immediately upon extraction and that IRS take steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. The requirement to ensure that returned refund checks are restrictively endorsed immediately upon extraction was previously listed in the 2002 LPG issued January 1, 2002. During the on-site security reviews, IRS and FMS security teams review adherence to this requirement. Additionally, adherence to this requirement is evaluated during the daily SPC quality reviews. | Open. This is a new recommendation. IRS needs to ensure that previously existing requirements are consistently and routinely adhered to by lockbox management at all of the lockbox sites. During our review of lockbox banks in 2002, we found sites that were not adhering to this requirement. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| Count | No. | Recommendation | Source report | Status of recommendations | |
|-------|-------|---|---|---|--|
| | | | | Per IRS | Per GAO |
| 80 | 03-18 | Require that lockbox couriers are properly identified prior to granting them access to taxpayer data and receipts and that IRS take steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. The 2003 LPG, Section 2.7.4, effective January 1, 2003, specifies that guards identify couriers before granting access. Adherence to the requirements was added to the Lockbox Security Check Sheet. Adherence is monitored by the Lockbox FMS and IRS security team during their announced and unannounced security visits. | Open. This is a new recommendation. IRS needs to ensure that previously existing requirements, and any updates to them, are consistently and routinely adhered to by lockbox management at all of the lockbox sites. During our review of lockbox banks in 2002, we found sites that were not adhering to this requirement. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 81 | 03-19 | Require that employees have received favorable results on fingerprint checks before they are granted access to taxpayer data and receipts and that IRS take steps to monitor adherence to this requirement. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. The requirement for lockbox sites to obtain favorable results on employees' fingerprint checks before allowing them access to the processing floor was previously listed in the 2002 LPG. The 2003 LPG, Section 2.6.1, effective January 1, 2003, was updated to reflect the new requirements. The FMS and IRS security team review personnel files to ensure employees currently working with taxpayer remittances have fingerprint clearance. | Open. This is a new recommendation. IRS needs to ensure that previously existing requirements are consistently and routinely adhered to by lockbox management at all of the lockbox sites. During our review of lockbox banks in 2002, we found sites that were not adhering to this requirement. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 82 | 03-20 | Revise the LPG to require that before lockbox bank couriers receive access to taxpayer data and receipts they undergo and receive favorable results on background investigations that are deemed appropriate by IRS and are consistent across lockbox banks. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. IRS reported that it is taking this recommendation under advisement. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| Count | No. | Recommendation | Source report | Status of recommendations | |
|-------|-------|--|---|--|--|
| | | | | Per IRS | Per GAO |
| 83 | 03-21 | Revise the LPG to require that before permanent lockbox bank employees receive access to taxpayer data and receipts they undergo and receive favorable results on background investigations that are deemed appropriate by IRS and are consistent across lockbox banks. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. IRS reported that it is taking this recommendation under advisement. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 84 | 03-22 | Revise the LPG to require that guards inspect courier vehicles for unauthorized passengers and unlocked doors. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. The 2003 LPG, Section 2.7.4, which was effective January 1, 2003, was updated to include this requirement. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 85 | 03-23 | Revise the LPG to require that candling procedures for the various types of extraction methods be clarified. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. In the 2003 LPG, Section 3.2.8, effective January 1, 2003, candling procedures for the various types of extraction methods were clarified. Splitting the envelope on three sides and flattening the envelope is sufficient to meet candling requirements. This process is sufficient to meet the candling requirements without further light source viewing. All other methods of extraction require viewing the envelope twice, through a light source, to meet the candling requirement. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 86 | 03-24 | Revise the LPG to require that during candling, lockbox bank employees record which machines and which extraction clerks missed items. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Open. Many new requirements for candling have been established. However, we are still in the process of analyzing the effectiveness of this as a requirement. Expected due date April 1, 2003. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| Count | No. | Recommendation | Source report | Status of recommendations | |
|-------|-------|--|---|---|--|
| | | | | Per IRS | Per GAO |
| 87 | 03-25 | Revise the LPG to require that lockbox bank management reconcile items found during candling to the candling records. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003) | Closed. Instructions for candling have been revised to require management to reconcile items to the Form 9535. The 2003 LPG was updated on January 31, 2003, via Lockbox Electronic Bulletin alert, to include this requirement in the LPG. LPG reference 3.2.8. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 88 | 03-26 | Revise the LPG to require that lockbox bank management reconcile cash payments to internal cash logs and the cash logs they provide to IRS. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan 15, 2003) | Closed. All cash receipts are documented on Form 9535. LPG 2003 was updated on January 31, 2003, via Lockbox Electronic Bulletin, to include the requirement to document immediately and for management to reconcile payments. LPG reference 3.3.2.14. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 89 | 03-27 | Revise the LPG to require that lockbox employees immediately seek processing guidance from the lockbox coordinator if envelopes with timely postmark dates are received after the postmark review period has ended. (short-term) | <i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan 15, 2003) | Closed. The January 1, 2003, LPG included a requirement for a lockbox site to notify the SPC Lockbox Coordinator if it receives timely postmarked mail after the grace period. The Lockbox Coordinator will provide instructions for processing and assess the need for further postmark review. See LPG reference 3.2.2.1(2). | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 90 | 03-28 | Enforce 180-day expiration period for fingerprint check results required when an individual enters on duty. (short-term) | <i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R, May 20, 2003) | Closed. IRS re-emphasized this policy by e-mail to Background Investigations Coordinators and Personnel Officers on September 30, 2002, and during a conference call on October 9, 2002. In addition, the Personnel Security and Investigations staff created and distributed an Excel file that calculates the date when fingerprint results expire. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| Count | No. | Recommendation | Source report | Status of recommendations | |
|-------|-------|--|--|---|--|
| | | | | Per IRS | Per GAO |
| 91 | 03-29 | Confirm with FMS that IRS's requirements for background and fingerprint checks for courier services are met regardless of whether IRS or FMS negotiates the service agreement. (short-term) | <i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R, May 20, 2003) | Closed. On October 7, 2002, FMS issued an amendment to the Courier MOU, which included the requirement that all courier employees satisfy the basic investigation including an FBI fingerprint and name check. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 92 | 03-30 | Establish procedures to verify that courier services are adhering to the standards established for them by IRS, including the requirement that the courier service have insurance coverage. (short-term) | <i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R, May 20, 2003) | Open. IRS's Security Review Team of Receipt and Control reviews compliance with the courier requirements monthly, using the Campus Security Checklist. On April 17, 2003, IRS requested that FMS direct banks to issue a copy of the insurance certificate to their aligned campus. In addition, FMS agreed to draft a memorandum to the financial institutions advising them to regularly provide a copy of the insurance certificates to IRS Headquarters. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 93 | 03-31 | Enforce consistent implementation of policy limiting personal belongings in receipt processing areas at service center campuses. (short-term) | <i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R, May 20, 2003) | Open. IRS will issue a memorandum to all Submission Processing Field Directors by May 15, 2003, requiring managers in receipt processing areas to ensure employees are adhering to established security procedures. This memorandum will require unit managers in receipt processing areas to conduct random reviews of employee compliance with all security policies. Beginning by June 30, 2003, IRS will verify managerial adherence to this direction during the monthly Campus Security Reviews. The IRS Headquarters Security Review Team will also conduct unannounced Campus Security Reviews at the campuses. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 94 | 03-32 | Prohibit the storage of employees' personal belongings with cash payments and receipts at IRS's TACs. (short-term) | <i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R, May 20, 2003) | Open. IRS will include a requirement in the IRM guidelines to be issued June 30, 2003, stating that cash payments and Form 809 - Receipt for Payment of Taxes must be stored separately from personal belongings. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

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| Count | No. | Recommendation | Source report | Status of recommendations | |
|-------|-------|--|--|--|--|
| | | | | Per IRS | Per GAO |
| 95 | 03-33 | Revise candling procedures to specify the precise candling methods to be used based on the dimensions of the mail processed and the extraction method used for both the first and the final candling. (short-term) | <i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R , May 20, 2003) | Open. IRS is revising its IRM candling procedures to specify precise first and final candling methods. Scheduled completion date is May 30, 2003. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 96 | 03-34 | Establish and implement procedures prohibiting a single employee from performing the final candling in a remote location. (short-term) | <i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R , May 20, 2003) | Open. IRS will incorporate new requirements in the IRM prohibiting a single employee from performing the final candling in a remote location. Scheduled completion date is May 30, 2003. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 97 | 03-35 | Determine which TACs do not presently accept payment of taxes in cash and issue a memorandum reminding them of the requirement that cash be accepted. (short-term) | <i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R , May 20, 2003) | Closed. IRS included guidelines in its Fiscal Year 2003 Field Assistance Operating Procedures (FAOP) stating that all TACs will accept all standard forms of payments from customers including checks, money orders, and cash. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |
| 98 | 03-36 | Establish a mechanism to periodically review adherence to IRS's policy that payment of taxes in cash be accepted. (short-term) | <i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R , May 20, 2003) | Closed. IRS will include procedures in its operational reviews of TACs to ensure compliance with the FAOP guidelines. Also, managers in the TACs are also required to complete an annual review to address this issue. | Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2003 financial audit. |

Source: GAO and IRS.

Details on Audit Methodology

To fulfill our responsibilities as the auditor of the Internal Revenue Service's (IRS) financial statements, we did the following:

- We examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. This included testing selected statistical samples of unpaid assessment, revenue, refund, accounts payable, accrued expenses, payroll, nonpayroll, property and equipment, and undelivered order transactions. These statistical samples were selected primarily to substantiate balances and activities reported in IRS's financial statements. Consequently, dollar errors or amounts can and have been statistically projected to the population of transactions from which they were selected. In testing these samples, certain attributes were identified that indicated either significant deficiencies in the design or operation of internal control or compliance with provisions of laws and regulations. These attributes, where applicable, can be and have been statistically projected to the appropriate populations.
- We assessed the accounting principles used and significant estimates made by management.
- We evaluated the overall presentation of the financial statements.
- We obtained an understanding of internal controls related to financial reporting (including safeguarding assets), compliance with laws and regulations (including the execution of transactions in accordance with budget authority), and performance measures reported in the Management's Discussion and Analysis.
- We tested relevant internal controls over financial reporting (including safeguarding assets) and compliance, and evaluated the design and operating effectiveness of internal controls.
- We considered the process for evaluating and reporting on internal controls and financial management systems under the Federal Managers' Financial Integrity Act.
- We tested compliance with selected provisions of the following laws and regulations: Anti-Deficiency Act, as amended (31 U.S.C. §1341(a)(1) and 31 U.S.C. §1517(a)); agreements for payment of tax liability in installments (26 U.S.C. §6159); Purpose Statute (31 U.S.C. §1301); release of lien or discharge of property (26 U.S.C. §6325); interest on

underpayment, nonpayment, or extensions of time for payment of tax (26 U.S.C. §6601); interest on overpayments (26 U.S.C. §6611); determination of rate of interest (26 U.S.C. §6621); failure to file tax return or to pay tax (26 U.S.C. §6651); failure by individual to pay estimated income tax (26 U.S.C. §6654); failure by corporation to pay estimated income tax (26 U.S.C. §6655); Prompt Payment Act (31 U.S.C. §3902 (a), (b), and (f), and 31 U.S.C. §3904); Fair Labor Standards Act of 1938, as amended (29 U.S.C. §206); Civil Service Retirement Act of 1930, as amended (5 U.S.C. §§5332, 5343); Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. §§8422 and 8423); Social Security Act, as amended (26 U.S.C. §§3101 and 3121, and 42 U.S.C. §430); and Federal Employees Health Benefits Act of 1959, as amended (5 U.S.C. §§8905, 8906, and 8909).

- We tested whether IRS's financial management systems substantially comply with the three requirements of the Federal Financial Management Improvement Act.

Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

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

May 16, 2003

Mr. Steven J. Sebastian
Director
Financial Management and Assurance
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Sebastian:

I am responding to your draft report titled, *Status of Recommendations From Financial Audits and Related Financial Management Reports*. We recently provided you with an update on the current status of the recommendations and you accurately incorporated this information into Appendix I of the draft report.

Of the 98 recommendations cited in your report we are pleased that GAO agrees that 20 are now closed. In addition, we believe an additional 34 will be closed based on your fiscal year 2003 financial audit. As stated in your report, some of your recommendations, such as those related to our modernization efforts, will require a longer period of time to resolve. We are actively working to implement corrective actions to address all remaining open recommendations.

I appreciate the GAO's acknowledgement of our continued strong commitment to improving financial management. I also recognize we must stay committed to resolving any remaining financial management issues.

Sincerely,

A handwritten signature in cursive script that reads "Bob Wenzel".

Bob Wenzel

GAO Contact and Staff Acknowledgments

GAO Contact

Steven Sebastian, (202) 512-3406

Acknowledgments

In addition to the person named above, Casey Keplinger, Larry Malenich, Paul Foderaro, Chuck Fox, Yola Lewis, John Davis, William Cordrey, Valerie Freeman, Alain Dubois, George Jones, Leonard Zapata, and Gloria Cano made key contributions to this report.

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