



Highlights of [GAO-04-523](#), 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.

www.gao.gov/cgi-bin/getrpt?GAO-04-523.

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

INTERNAL REVENUE SERVICE

Status of Recommendations from Financial Audits and Related Financial Management Reports

What GAO Found

Although IRS has made improvements to address a number of financial management weaknesses, some of the open audit recommendations have been outstanding for an extended period of time. IRS has continued to experience delays in the implementation of the new systems intended to correct some of these long-standing deficiencies. Others, however, could be resolved with additional management attention. The continued existence of these financial management weaknesses exposes IRS to loss due to errors or theft and impairs the availability of current, accurate financial information that management needs to make decisions on a day-to-day basis.

Of 100 recommendations related to financial management (consisting of 78 recommendations open as of May 2003, 7 recommendations included in GAO's July 2003 report on IRS's excise tax certification process, and 15 new recommendations included in GAO's management report for fiscal year 2003), GAO is closing 24 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 2003 financial statements.

Of the remaining 76 financial management recommendations GAO considers open as of the date of this report, 66 are short term (capable of being addressed within 2 years) and 10 are long term (expected to require more than 2 years to implement). IRS considers 37 (49 percent) of the 76 recommendations to be closed. GAO considers 12 of these 37 still open because it has not yet had an opportunity to verify the actions taken by IRS. The actions cited by IRS for these 12 recommendations are recent and were taken after GAO's financial statement audit work for the year was completed. For 24 of the 37 recommendations that IRS considers closed, GAO found that action taken by IRS has not yet been fully effective in addressing the conditions that gave rise to the recommendations. 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 76 recommendations that remain open during the fiscal year 2004 audit. IRS said it expects GAO to find in its fiscal year 2004 financial audit that IRS has taken corrective actions to allow closure of another 37 recommendations. In addition, IRS stated that it is actively working to implement corrective actions to address all remaining open recommendations.