

GAO

Report to the Acting Commissioner of
Internal Revenue

June 2007

INTERNAL REVENUE SERVICE

Status of GAO Financial Audit and Related Financial Management Report Recommendations





Highlights of [GAO-07-629](#), a report to the Acting 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 annually collecting over \$2 trillion in taxes, processing hundreds of millions of tax and information returns, and enforcing the nation's tax laws. Since its first audit of IRS's financial statements in fiscal year 1992, GAO has identified a number of weaknesses in IRS's financial management operations. 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 status of weaknesses GAO identified in previous years' audits. The purpose of this report is to (1) assist IRS management in tracking the status of audit recommendations and actions needed to fully address them and (2) demonstrate how the recommendations relate to control activities central to IRS's mission and goals. GAO is making no new recommendations in this report.

www.gao.gov/cgi-bin/getrpt?GAO-07-629.

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 GAO Financial Audit and Related Financial Management Report Recommendations

What GAO Found

IRS has made significant progress in improving its internal controls and financial management since its first financial statement audit in 1992, as evidenced by 7 consecutive years of clean audit opinions on its financial statements, the resolution of several material internal control weaknesses, and the closing of over 200 financial management recommendations. This progress has been the result of hard work and commitment at the top levels of the agency.

However, IRS still faces financial management challenges. At the beginning of GAO's audit of IRS's fiscal year 2006 financial statements, 72 financial management-related recommendations from prior audits remained open because IRS had not fully addressed the issues that gave rise to them. During the fiscal year 2006 financial audit, IRS took actions that enabled GAO to close 25 of those recommendations. At the same time, GAO identified additional internal control issues resulting in 28 new recommendations. In total, 75 recommendations currently remain open.

To assist IRS in evaluating and improving internal controls, GAO categorized the 75 open recommendations by various internal control activities which, in turn, were grouped into three broad control activity groupings.

Summary of Open Recommendations

Control activity group	Open at the beginning of 2006	Closed during 2006 audit	New from 2006 audit	Total open for 2007
Safeguarding of assets and security activities	29	17	7	19
Proper recording and documenting of transactions	26	4	11	33
Effective management review and oversight	17	4	10	23
Total	72	25	28	75

Source: GAO analysis of financial management recommendations made to IRS.

The continued existence of internal control weaknesses that gave rise to these recommendations represents a serious obstacle that IRS needs to overcome. Effective implementation of GAO's recommendations can greatly assist IRS in improving its internal controls and achieving sound financial management and can help enable it to more effectively carry out its tax administration responsibilities. IRS acknowledged the status of GAO's recommendations and indicated its desire to ensure that its corrective actions appropriately address its internal control issues.

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Abbreviations

ALS	Automated Lien System
AM	accounts management
ATFR	Automated Trust Fund Recovery
AUR	Automated Under Reporter
AWSS	Agency-Wide Shared Services
BPMS	Business Performance Management System
CCTV	closed-circuit television
CDDB	Custodial Detail Data Base
CFO	chief financial officer
COTR	contracting officer's technical representative
DCI	data collection instrument
FA	Field Assistance
FC	field coordinator
FISCAM	<i>Federal Information System Controls Audit Manual</i>
FISMA	Federal Information Security Management Act of 2002
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMIS	Financial Management Information System
FMS	Financial Management Service
IAR	initial account representative
IDRS	Integrated Data Retrieval System
IFS	Integrated Financial System

IRACS	Interim Revenue and Accounting Control System
IRM	<i>Internal Revenue Manual</i>
IRS	Internal Revenue Service
JFMIP	Joint Financial Management Improvement Project
LEB	Lockbox Electronic Bulletin
LEM	<i>Security Law Enforcement Manual</i>
LFC	lockbox field coordinators
LMSB	Large and Mid-sized Business
LPG	Lockbox Processing Guidelines
LSG	Lockbox Security Guide
MA	Mission Assurance
MITS	Modernization & Information Technology Services
MOU	Memorandum of Understanding
NBIC	National Background Investigations Center
NFC	National Finance Center
OMB	Office of Management and Budget
P&E	property and equipment
PSEP	Physical Security and Emergency Preparedness Office
REFM	Real Estate and Facilities Management
SB/SE	Small Business/Self-Employed
SCC	service center campus
SERP	Service-wide Electronic Research Program
SETS	Security Entry and Tracking System
SP	Submission Processing
SPC	submission processing center
SS	Security Services
TAC	taxpayer assistance center
TE/GE	Tax Exempt and Government Entities
TFRP	Trust Fund Recovery Penalty
TGA	Treasury's General Account
TIGTA	Treasury Inspector General for Tax Administration
USR	unit security representative
USSGL	<i>United States Government Standard General Ledger</i>
W&I	Wage and Investment

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United States Government Accountability Office
Washington, DC 20548

June 7, 2007

The Honorable Kevin M. Brown
Acting Commissioner of Internal Revenue

Dear Mr. Brown:

In its role as the nation's tax collector, the Internal Revenue Service (IRS) has a demanding responsibility to collect taxes, process tax returns, and enforce the nation's tax laws. In fiscal year 2006, IRS collected about \$2.5 trillion in tax payments, processed hundreds of millions of tax and information returns, and paid about \$277 billion in refunds to taxpayers. Because of its role and overall mission, IRS's activities touch on virtually all of the nation's citizens. It is therefore critical that the agency strive to maintain sound financial management practices.

IRS has made much progress in improving its financial management since it was first required to prepare and have audited a set of financial statements in fiscal year 1992. This progress was reflected in its ability to obtain and maintain a clean audit opinion on its financial statements each year beginning in fiscal year 2000, and to correct several material internal control weaknesses over the years and make many other improvements in internal control. At the same time, more remains to be done to address long-standing internal control issues that continue to plague the agency. IRS continues to have weak or ineffective internal controls over fundamental elements of its operations that leave it vulnerable to a greater risk of fraud, waste, abuse, and mismanagement. This, in turn, has the potential to impact the lives of the nation's taxpayers, as our audits over the years have demonstrated.

An agency's internal control environment serves as the first line of defense in safeguarding its assets and in preventing and detecting errors and fraud, as well as in helping to effectively manage its stewardship over public

resources.¹ Unfortunately, IRS continues to be challenged with several long-standing material weaknesses in internal control that are at the heart of IRS's operations.² During our audit of IRS's fiscal year 2006 financial statements, we continued to find material weaknesses in controls over

- financial reporting (including safeguarding of assets),
- unpaid tax assessments,
- identifying and collecting tax revenues due and issuing tax refunds, and
- information systems security.

In addition to the material weaknesses, we continued to identify a reportable condition involving controls over hard-copy tax receipts and taxpayer data, which increase the government's and taxpayer's risk of loss or inappropriate disclosure of taxpayer data.

¹Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Part of the actions required by agencies and individual federal managers includes taking proactive measures to develop and implement appropriate, cost-effective internal control for results-oriented management; to assess the adequacy of internal control in federal programs and operations; to identify needed improvements; and to take corresponding corrective actions.

²Prior to December 15, 2006, a material weakness was defined as a reportable condition that precludes the entity's internal controls from providing reasonable assurance that material misstatements in the financial statements would be prevented or detected on a timely basis. Reportable conditions represent significant deficiencies in the design or operation of internal controls that could adversely affect an entity's ability to initiate, authorize, record, process, or report financial data reliably. In May 2006, the American Institute of Certified Public Accountants (AICPA) issued the Statement on Auditing Standards (SAS) 112, which became effective for audits of financial statements for periods ending on or after December 15, 2006. SAS 112 established standards and provides guidance on the auditor's responsibilities for identifying, evaluating, and communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. Under the new SAS, the auditor is required to communicate control deficiencies that are significant deficiencies or material weaknesses in internal controls. A control deficiency, which is a new term under SAS 112, exists when the design or operation of a control does not allow management or employees, in the course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. As a result of SAS 112, the term reportable condition is no longer used.

To assist IRS in strengthening its internal controls and improving its operations, we have made numerous recommendations as part of our annual financial statement audits and other financial management-related work at IRS. This report is being provided to you to (1) assist IRS management in tracking the status of financial audit and financial management-related recommendations and the actions needed to address them and (2) demonstrate how the recommendations relate to control activities central to IRS's mission and goals. We are making no new recommendations in this report.

We conducted our review from December 2006 through April 2007 in accordance with U. S. generally accepted government auditing standards.

Results in Brief

IRS management continues to make progress in addressing many of the internal control issues that challenge the agency. IRS's actions have enabled us to close over 200 financial management-related recommendations over the years since our first audit of its financial statements in 1992. At the beginning of the fiscal year 2006 IRS financial statement audit, 72 financial management-related recommendations from prior audits remained open. During the fiscal year 2006 financial statement audit, IRS took actions to effectively address issues that gave rise to numerous recommendations, enabling us to close 25 of those recommendations. Thus, 47 recommendations remained open from prior years' audits at the end of fiscal year 2006. In addition, during our fiscal year 2006 financial audit, we made 28 new recommendations to address newly identified issues. As a result, a total of 75 recommendations to address IRS's internal control issues remain open.

In analyzing the nature of these open financial management recommendations, we determined that 19 recommendations (25 percent) relate to issues associated with IRS's lack of effective controls over safeguarding assets and security activities. Another 33 recommendations (approximately 44 percent) relate to issues associated with IRS's inability to properly record and document transactions. The remaining 23 recommendations (31 percent) relate to issues associated with lack of effective management review and oversight. Effectively and fully addressing these open recommendations would greatly assist IRS in improving its internal controls and achieving sound financial management.

In commenting on a draft of this report, IRS expressed its appreciation for our acknowledgement of the agency's progress in addressing its financial management challenges as evidence by our closure of 25 of the 72 open

financial management recommendations from last year's report. We have reprinted IRS's written comments in appendix II.

Background

Internal control is not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. Internal control should be recognized as an integral part of each system that management uses to regulate and guide its operations rather than as a separate system within an agency. In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their goals on an ongoing basis.

Section 3512 (c), (d) of Title 31, U.S. Code (commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA)), requires agencies to establish and maintain internal control. The agency head must annually evaluate and report on the control and financial systems that protect the integrity of federal programs. The requirements of FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, financial reporting, and compliance with laws and regulations.

Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Internal Control" (revised Dec. 21, 2004), provides the implementing guidance for FMFIA, and sets out the specific requirements for assessing and reporting on internal controls³ consistent with the internal control standards issued by the Comptroller General of the United States.⁴ The circular, which was revised in 2004 with the revisions effective for fiscal year 2006, defines management's responsibilities related to internal control and the process for assessing internal control effectiveness, and provides specific requirements for conducting management's assessment of the effectiveness of internal control over financial reporting. The circular requires management to

³The circular was revised in December 2004. The circular states that the revision followed a reexamination of the existing internal control requirements for federal agencies that was initiated in light of the new internal control requirements for publicly traded companies contained in the Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, 116 Stat. 745 (July 30, 2002).

⁴GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (November 1999).

annually provide assurances on internal control in its Performance and Accountability Report, and for the 24 Chief Financial Officers (CFO) Act agencies to include a separate assurance on internal control over financial reporting, along with a report on identified material weaknesses and corrective actions.⁵ The circular also emphasizes the need for integrated and coordinated internal control assessments that synchronize all internal control-related activities.

FMFIA requires GAO to issue standards for internal control in the federal government. GAO's Standards for Internal Control in the Federal Government provides the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

As summarized in GAO's Standards for Internal Control in the Federal Government, the minimum level of quality acceptable for internal control in the government is defined by the following five standards, which also provide the basis against which internal controls are to be evaluated:

- **Control environment:** Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.
- **Risk assessment:** Internal control should provide for an assessment of the risks the agency faces from both external and internal sources.
- **Control activities:** Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives.
- **Information and communications:** Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

⁵The circular requires agencies and individual federal managers to take systematic and proactive measures to (1) develop and implement appropriate, cost-effective internal control for results-oriented management; (2) assess the adequacy of internal control in federal programs and operations; (3) separately assess and document internal control over financial reporting consistent with the process defined in Appendix A of the circular; (4) identify needed improvements; (5) take corresponding corrective action; and (6) report annually on internal control through management assurance statements.

-
- **Monitoring:** Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

The third control standard—internal control activities—helps ensure that management’s directives are carried out. Control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives. In other words, they are the activities conducted in the everyday course of business that accomplish a control objective, such as ensuring IRS employees successfully complete background checks prior to being granted access to taxpayer information and receipts. As such, control activities are an integral part of an entity’s planning, implementing, reviewing, and accountability for stewardship of government resources and achievement of effective results.

A key objective in our annual audits of IRS’s financial statements is to obtain reasonable assurance about whether IRS maintained effective internal controls with respect to financial reporting, including safeguarding of assets, and compliance with laws and regulations. While all five internal control standards are critical and are used by us as a basis for evaluating the effectiveness of IRS’s internal controls, we place a heavy emphasis on testing control activities. This has resulted in the identification of issues in certain internal controls over the years and recommendations for corrective action.

Scope and Methodology

To accomplish our objectives, we evaluated the effectiveness of IRS’s corrective actions implemented in response to open recommendations during fiscal year 2006 as part of our fiscal years 2006 and 2005 financial audits. To determine the current status of the recommendations, we (1) obtained the status of each recommendation and corrective action taken or planned as of April 2007, as reported to us by IRS and (2) compared IRS’s assessment to our fiscal year 2006 audit findings to identify any differences between IRS’s and our conclusions regarding the status of each recommendation.

In order to determine how these recommendations fit within IRS’s management and internal control structure, we compared the open recommendations, and the issues that gave rise to them, to the control activities listed in GAO’s Standards for Internal Control in the Federal

Government and to the list of major factors and examples outlined in our Internal Control Management and Evaluation Tool.⁶ We also considered how the recommendations and the underlying issues were categorized in our prior reports, whether IRS had addressed, in whole or in part, the underlying control issues that gave rise to the recommendations, and other legal requirements and implementing guidance, such as OMB Circular No. A-123; FMFIA; and the *Federal Information System Controls Audit Manual* (FISCAM), [GAO/AIMD-12.19.6](#) (revised June 2001).

We conducted our review from December 2006 through April 2007 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 on May 7, 2007. We received comments from IRS on May 18, 2007.

IRS's Progress on Financial Management Recommendations

IRS continues to make progress on addressing its significant financial management challenges. Over the years since we first began auditing IRS's financial statements in fiscal year 1992, we have closed out over 200 financial management-related recommendations we made based on actions IRS has taken to improve its internal controls and operational efficiency. This includes 25 recommendations we are closing based on actions IRS took during the period covered by our fiscal year 2006 financial audit. At the same time, however, our audits continue to identify internal control issues, resulting in our making further recommendations for corrective action, including 28 new financial management-related recommendations resulting from our fiscal year 2006 financial audit. These internal control issues, and the resulting recommendations, can be directly traced to the control activities in GAO's *Standards for Internal Control in the Federal Government*. As such, it is essential that they be fully addressed and resolved to strengthen IRS's overall financial management and to assist it in achieving its goals and mission.

⁶GAO, *Internal Control Standards: Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: August 2001).

Status of
Recommendations Based
on the Fiscal Year 2006
Financial Statement Audit

In June 2006, we issued a report on the status of IRS's efforts to implement corrective actions to address financial management recommendations stemming from our fiscal year 2005 and prior year financial audits and other financial management-related work.⁷ In that report, we identified 72 audit recommendations that at that time remained open and thus required corrective action by IRS. A significant number of these recommendations had been open for several years, either because IRS had not taken corrective action or because the actions taken had not fully and effectively resolved the issues that gave rise to the recommendations.

IRS continued to work to address many of the internal control issues to which these open recommendations relate. In the course of performing our fiscal year 2006 financial audit, we identified numerous actions IRS took to address many of its internal control issues. On the basis of IRS's actions, which we were able to substantiate through our audit, we are able to close 25 of these prior years' recommendations. IRS considers another 26 of the prior years' recommendations to be effectively addressed. However, we still consider them to be open either because we had not yet been able to verify the effectiveness of IRS's actions—they occurred subsequent to completion of our audit testing and thus have not been verified, which is a prerequisite to our closing a recommendation—or because the actions taken did not fully address the issue that gave rise to the recommendation.

However, continued efforts are needed by IRS to address its internal control issues. While we are able to close 25 financial management recommendations made in prior years, 47 recommendations from prior years remain open, a significant number of which have been outstanding for several years. In some cases, IRS may have effectively addressed the issues that gave rise to the recommendations subsequent to our fiscal year 2006 audit testing. However, in many cases, our fiscal year 2006 audit determined that the actions taken to date had not fully and effectively addressed the underlying internal control issues. Additionally, during our audit of IRS's fiscal year 2006 financial statements, we identified additional issues that will require corrective action by IRS. In two recent

⁷GAO, *Internal Revenue Service: Status of Recommendations from Financial Audits and Related Financial Management Reports*, GAO-06-560 (Washington, D.C.: June 6, 2006).

management reports to IRS,⁸ we discussed these issues, and made 28 new recommendations to IRS to address these new issues. Consequently, a total of 75 financial management-related recommendations are currently open and need to be addressed by IRS. Of these, we consider 66 short term and 9 long term.⁹

Appendix I presents a list of (1) recommendations we have made based on our financial statement audits and other financial management-related work that we had not previously reported as closed prior to our fiscal year 2006 audit, (2) the status of each of these recommendations and corrective actions taken or planned as of April 2007 as reported to us by IRS, and (3) our analysis of whether the issues that gave rise to the recommendations have been effectively and fully addressed based on the work performed during our fiscal year 2006 financial statement audit. The appendix also lists new recommendations we have made based on our fiscal year 2006 financial statement audit. The appendix lists the recommendations by the date on which the recommendation was made and by report number.

Open Recommendations Grouped by Control Activity

Linking the open recommendations from our financial audits and other financial management-related work, and the issues that gave rise to them, to internal control activities that are central to IRS's tax administration responsibilities provides insight regarding their significance.

Control activities, one of the five broad standards contained in GAO's *Standards for Internal Control in the Federal Government*, are the policies, procedures, techniques, and mechanisms that enforce management's directives. As such, they are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achievement of results. GAO's *Standards for Internal Control in the Federal Government* defines 11 control activities.

⁸GAO, *Management Report: Improvements Needed in IRS's Internal Controls*, GAO-07-689R (Washington, D.C.: May 11, 2007), and *Management Report: IRS's First Year Implementation of the Requirements of the Office of Management and Budget's (OMB) Revised Circular No. A-123*, GAO-07-692R (Washington, D.C.: May 18, 2007).

⁹We define short-term recommendations as those that could be addressed within 2 years at the time we made the recommendation. We define long-term recommendations as those expected to require 2 years or more to implement at the time we made the recommendation.

These control activities can be further grouped into three broad categories:

- Safeguarding of assets and security activities, including
 - physical control over vulnerable assets,
 - segregation of duties,
 - controls over information processing, and
 - access restrictions to and accountability for resources and records.
- Proper recording and documenting of transactions, including
 - appropriate documentation of transactions and internal control,
 - accurate and timely reporting of transactions and events, and
 - proper execution of transactions and events.
- Effective management review and oversight, including
 - reviews by management at the functional or activity level,
 - establishment and review of performance measures and indicators,
 - management of human capital, and
 - top-level reviews of actual performance.

Each of the open recommendations from our financial audits and financial management-related work, and the underlying issues that gave rise to them, can be traced back to the 11 control activities and their three broad categories. Table 1 presents a summary of the open recommendations, each tied back to the control activity to which it relates.

Table 1: Summary of Open Recommendations

Control activity	Open at start of fiscal year 2006 audit	Closed during fiscal year 2006 audit	New from fiscal year 2006 audit	Total open for fiscal year 2007	Percentage
Safeguarding of assets and security activities					
Physical control over vulnerable assets	13	7	6	12	16
Segregation of duties	3	0	1	4	5
Controls over information processing	6	5	0	1	1
Access restrictions to and accountability for resources and records	7	5	0	2	3
Subtotal	29	17	7	19	25
Proper recording and documenting of transactions					
Appropriate documentation of transactions and internal controls	11	2	4	13	17
Accurate and timely recording of transactions and events	14	2	7	19	26
Proper execution of transactions and events	1	0	0	1	1
Subtotal	26	4	11	33	44
Effective management review and oversight					
Reviews by management at the functional or activity level	12	3	8	17	23
Establishment and review of performance measures and indicators	4	1	0	3	4
Management of human capital	1	0	2	3	4
Subtotal	17	4	10	23	31
Total	72	25	28	75	

Source: GAO analysis of financial management recommendations made to IRS.

As table 1 indicates, 19 recommendations (25 percent) relate to issues associated with IRS's lack of effective controls over safeguarding of assets and security activities. Another 33 recommendations (44 percent) relate to issues associated with IRS's inability to properly record and document transactions. The remaining 23 open recommendations (31 percent) relate to issues associated with the lack of effective management review and oversight.

On the following pages, we group the 75 open recommendations under the control activity to which the condition that gave rise to them most appropriately fits. We first define each control activity as presented in GAO's *Standards for Internal Control in the Federal Government* and briefly identify some of the key IRS operations that fall under that control

activity. Although not comprehensive, the descriptions are intended to help explain why actions to strengthen these control activities are important for IRS to effectively carry out its overall mission. For each recommendation, we also indicate whether it is a short-term or long-term recommendation.

Safeguarding of Assets and Security Activities

Given IRS's mission, the sensitivity of the data it maintains, and its processing of trillions of dollars of tax receipts each year, one of the most important control activities at IRS is the safeguarding of assets. Internal control in this important area should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets. We have grouped together the four control activities in GAO's *Standards for Internal Control in the Federal Government* that relate to safeguarding of assets (including tax receipts) and security activities (such as limiting access to only authorized personnel): (1) physical control over vulnerable assets, (2) segregation of duties, (3) controls over information processing, and (4) access restrictions to and accountability for resources and records.

Physical Control over Vulnerable Assets

An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.

IRS is charged with collecting over \$2 trillion in taxes each year, a significant amount of which is collected in the form of checks and cash accompanied by tax returns and related information. IRS collects taxes both at its own facilities as well as at lockbox banks that operate under contract with the Department of the Treasury's Financial Management Service (FMS) to provide processing services for certain taxpayer receipts for IRS. IRS acts as custodian for (1) the tax payments it receives until they are deposited in the General Fund of the U.S. Treasury and (2) the tax returns and related information it receives until they are either sent to the Federal Records Center or destroyed. IRS is also charged with controlling many other assets, such as computers and other equipment, but IRS's legal responsibility to safeguard tax returns and the confidential information taxpayers provide on tax returns makes the effectiveness of its internal controls with respect to physical security essential.

IRS receives cash and checks mailed to its service centers or lockbox banks with accompanying tax returns and information or payment vouchers and payments made in person at one of its offices. While effective physical safeguards over receipts should exist throughout the year, it is especially important during the peak tax filing season. Each year during the weeks preceding and shortly after April 15, an IRS service center campus (SCC) or lockbox bank may receive and process daily over 100,000 pieces of mail containing returns, receipts, or both. The dollar value of receipts each service center and lockbox bank processes increases to hundreds of millions of dollars a day during the April 15 time frame.

Of our 75 open recommendations, the following 12 open recommendations are designed to improve IRS's physical controls over vulnerable assets. All are short-term in nature. (See table 2.)

Table 2: Recommendations to Improve IRS's Physical Controls over Vulnerable Assets

ID. No.	Recommendations
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)
04-08	Enforce policies and procedures to ensure that service center campus security guards respond to alarms. (short-term)
06-05	Equip all taxpayer assistance centers (TAC) with adequate physical security controls to deter and prevent unauthorized access to restricted areas or office space occupied by other IRS units, including those TACs that are not scheduled to be reconfigured to the "new TAC" model in the near future. This includes appropriately separating customer service waiting areas from restricted areas in the near future by physical barriers such as locked doors marked with signs barring entrance by unescorted customers. (short-term)
06-08	Enforce the requirement that all security or other responsible personnel at SCCs and lockbox banks record all instances involving the activation of intrusion alarms regardless of the circumstances that may have caused the activation. (short-term)
06-09	Reemphasize the need for the security guards at all TACs to ensure that key posts of duty, such as entrances to facilities, are not left unattended. (short-term)
06-15	Revise the physical security procedures in the Internal Revenue Manual (IRM) to require that all SCCs and any respective annex facilities processing taxpayer receipts and/or information perform and document monthly tests of the facility's intrusion detection alarms. At a minimum, these procedures should (1) outline the type of test to be conducted, (2) include criteria for assessing whether the controls used to respond to the alarm were effective, and (3) require that a logbook be maintained to document the test dates, results, and response information. (short-term)
07-01	Enforce the existing policy requiring that all lockbox banks encrypt backup media containing federal taxpayer information. (short-term)
07-02	Ensure that lockbox banks store backup media containing federal taxpayer information at an off-site location as required by the 2006 Lockbox Security Guide. (short-term)

ID. No.	Recommendations
07-03	Revise instructions for the annual reviews of lockbox banks to encompass routine monitoring of backup media containing personally identifiable information to ensure that this information is (1) encrypted prior to transmission and (2) stored in an appropriate off-site location. (short-term)
07-04	Develop and implement appropriate corrective actions for any gaps in closed circuit TV (CCTV) camera coverage that do not provide an unobstructed view of the entire exterior of the SCC's perimeter, such as adding or repositioning existing CCTV cameras or removing obstructions. (short-term)
07-05	Revise instructions for quarterly physical security reviews to require analysts to (1) document any issues identified as well as planned implementation dates of corrective actions to be taken and (2) track the status of corrective actions identified during the quarterly assessments to ensure they are promptly implemented. (short-term)
07-20	Establish and maintain sufficient secured storage space to properly secure and safeguard its property and equipment inventory, including in-stock inventories assets from incoming shipments, and assets that are in the process of being excessed and/or shipped out. (short-term)

Source: GAO analysis of financial management recommendations made to IRS.

Segregation of Duties

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

IRS employees are responsible for processing trillions of dollars of tax receipts each year, of which hundreds of billions are received in the form of cash or checks,¹⁰ and for processing hundreds of billions of dollars in refunds to taxpayers. Consequently, it is critical that IRS maintain appropriate separation of duties to allow for adequate oversight of staff and protection of these vulnerable resources so that no single individual would be in a position of both causing an error or irregularity, potentially converting the asset to their personal use, and then concealing it. For example, when an IRS field office or lockbox bank receives taxpayer receipts and returns, it is responsible for depositing the cash and checks in a depository institution and forwarding the related information received to an SCC for further processing. In order to adequately safeguard receipts from theft, the person responsible for recording the information from the taxpayer receipts on a voucher should be different from the individual who prepares those receipts for transmittal to the SCC for further processing.

¹⁰The vast majority of federal tax payments are made for both businesses and individuals via the Electronic Federal Tax Payment System (EFTPS).

The following four open recommendations would help IRS improve its separation of duties, which will in turn strengthen its controls over both tax receipts and refunds. All are short-term in nature. (See table 3.)

Table 3: Recommendations to Improve IRS's Segregation of Duties

ID. No.	Recommendations
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)
05-32	Establish policies and procedures to require appropriate segregation of duties in small business/self-employed units of field offices with respect to preparation of Payment Posting Vouchers, Document Transmittal forms, and transmittal packages. (short-term)
05-41	Specify in the IRM that staff members are not to review their own command code profiles. (short-term)
07-21	Develop and implement procedures to require that separate individuals place orders with vendors and perform receipt and acceptance functions when the orders are delivered. (short-term)

Source: GAO analysis of financial management recommendations made to IRS.

Controls over Information Processing

A variety of control activities are used in information processing. Examples include edit checks of data entered, accounting for transactions in numerical sequences, and comparing file totals with control totals. There are two broad groupings of information systems control—general control (for hardware such as mainframe, network, end-user environments) and application control (processing of data within the application software). General controls include entitywide security program planning, management, and backup recovery procedures, and contingency and disaster planning. Application controls are designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing.

IRS relies extensively on computerized systems to support its financial and mission-related operations. To efficiently fulfill its tax processing responsibilities, IRS relies extensively on interconnected networks of computer systems to perform various functions, such as collecting and storing taxpayer data, processing tax returns, calculating interest and penalties, generating refunds, and providing customer service.

As part of our annual audits of IRS's financial statements, we assess the effectiveness of IRS's information security controls¹¹ over key financial systems, data, and interconnected networks at IRS's critical data processing facilities that support the processing, storage, and transmission of sensitive financial and taxpayer data. From that effort over the years, we have identified information security control weaknesses that impair IRS's ability to ensure the confidentiality, integrity, and availability of its sensitive financial and taxpayer data. As of March 2007, there were 48 open recommendations from our information security work designed to improve IRS's information security controls.¹² Recommendations resulting from our information security work are reported separately and are not included in this report primarily because of the sensitive nature of some of these issues.

However, the following open short-term recommendation is related to systems limitations and IRS's need to enhance its computer programs. (See table 4.)

Table 4: Recommendation to Improve IRS's Controls over Information Processing

ID. No.	Recommendation
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)

Source: GAO analysis of financial management recommendations made to IRS.

Access Restrictions to and Accountability for Resources and Records

Access to resources and records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained. Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.

¹¹Information security controls include electronic access controls, software change controls, physical security, segregation of duties, and service continuity. These controls are designed to ensure that access to data is appropriately restricted, that only authorized changes to computer programs are made, that physical access to sensitive computing resources and facilities is protected, that computer security duties are segregated, and that backup and recovery plans are adequate to ensure the continuity of essential operations.

¹²GAO, *Information Security: Further Efforts Needed to Address Significant Weaknesses at the Internal Revenue Service*, [GAO-07-364](#) (Washington, D.C.: Mar. 30, 2007).

Because IRS deals with a large volume of cash and checks, it is imperative that it maintain strong controls to appropriately restrict access to those assets, the records that track those assets, and sensitive taxpayer information. Although IRS has a number of both physical and information system controls in place, some of the issues we have identified in our financial audits over the years pertain to ensuring that those individuals who have direct access to these cash and checks are appropriately vetted before being granted access to taxpayer receipts and information and to ensuring that IRS maintains effective access security control.

The following two open short-term recommendations would help IRS improve its access restrictions to assets and records. (See table 5.)

Table 5: Recommendations to Improve IRS’s Access Restrictions to and Accountability for Resources and Records

ID. No.	Recommendations
05-11	Enforce adherence to existing instructions on safeguarding taxpayer receipts and information, such as securing access and candling procedures, at service center campuses selected for significant reductions in their submission processing functions. (short-term)
05-13	Enforce its existing requirement that appropriate background investigations be completed for contractors before they are granted staff-like access to service centers. (short-term)

Source: GAO analysis of financial management recommendations made to IRS.

Proper Recording and Documenting of Transactions

One of the largest obstacles continuing to face IRS management is the agency’s lack of an integrated financial management system capable of producing the accurate, useful, and timely information IRS managers need to assist in making well-informed day-to-day decisions. While IRS is making progress in modernizing its financial management capabilities, it nonetheless continues to face many pervasive internal control weaknesses related to its long-standing systems deficiencies that we have reported each year since we began auditing its financial statements in fiscal year 1992.

However, IRS also has a number of internal control issues that relate to recording transactions, documenting events, and tracking the processing of taxpayer receipts or information, which do not depend upon improvements in information systems.

We have grouped three control activities together that relate to proper recording and documenting of transactions: (1) appropriate documentation of transactions and internal controls, (2) accurate and

timely recording of transactions and events, and (3) proper execution of transactions and events.

Appropriate Documentation of Transactions and Internal Control

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

IRS collects and processes trillions of dollars in taxpayer receipts annually both at its own facilities and at lockbox banks under contract to process taxpayer receipts for the federal government. Therefore, it is important that IRS maintain effective controls to ensure that all documents and records are properly managed and maintained both at its facilities and at the lockbox banks. In addition, IRS must adequately document and disseminate its procedures to ensure that they are available for IRS employees.

The following 13 open recommendations would assist IRS in improving its documentation of transactions and internal control procedures. All are short-term in nature (See table 6.)

Table 6: Recommendations to Improve IRS's Documentation of Transactions and Internal Control

ID. No.	Recommendations
04-03	Develop procedures to require lockbox managers to provide satisfactory evidence that managerial reviews are performed in accordance with established guidelines. At a minimum, reviewers should sign and date the reviewed documents and provide any comments that may be appropriate in the event that their reviews identified problems or raised questions. (short-term)
05-12	Document a methodology for estimating anticipated rapid changes in mail volume at future SCCs selected for significant reductions in their submission processing functions, taking into consideration factors such as the prior rampdown experience at Brookhaven. (short-term)
05-14	Require that background investigation results for contractors (or evidence thereof) be on file where necessary, including at contractor worksites and security offices responsible for controlling access to sites containing taxpayer receipts and information. (short-term)
05-39	Enforce requirements for documenting monitoring actions and supervisory review. (short-term)
06-01	Require that Refund Inquiry Unit managers or supervisors document their review of all forms used to record and transmit returned refund checks prior to sending them for final processing. (short-term)

ID. No.	Recommendations
06-02	Enforce compliance with existing requirements that all IRS units transmitting taxpayer receipts and information from one IRS facility to another, including SCCs, TACs, and units within Large and Mid-sized Business (LMSB) and Tax-Exempt and Government Entities (TE/GE), establish a system to track acknowledged copies of document transmittals. (short-term)
06-03	Provide instructions to document the follow-up procedures performed in those cases where transmittals have not been timely acknowledged. (short-term)
06-04	Require that managers or supervisors document their reviews of document transmittals to ensure that taxpayer receipts and/or taxpayer information mailed between IRS locations are tracked according to guidelines. (short-term)
06-07	Document supervisory visits by offsite managers to TACS not having a manager permanently on-site. This documentation should be signed by the manager and should (1) record the time and date of the visit, (2) identify the manager performing the visit, (3) indicate the tasks performed during the visit, (4) note any problems identified, and (5) describe corrective actions planned. (short-term)
07-06	Revise procedures contained in the Manual Refund Desk Reference to reflect the IRM requirements for manual refund initiators to (1) monitor the manual refund accounts in order to prevent duplicate refunds, and (2) document their monitoring actions. (short-term)
07-07	Provide to all IRS units responsible for processing manual refunds the most current version of the Manual Refund Desk Reference. (short-term)
07-15	Issue a memorandum to employees in the Centralized Insolvency Office reiterating the IRM requirement to timely record bankruptcy discharge information onto taxpayer accounts in the master file or to manually release the liens in the Automated Lien System (ALS). (short-term)
07-16	Issue a memorandum to employees in the Centralized Lien Processing Unit reiterating the IRM requirement to date stamp and maintain the billing support voucher as evidence of timely processing by IRS. (short-term)

Source: GAO analysis of financial management recommendations made to IRS.

Accurate and Timely Recording of Transactions and Events

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

IRS is responsible for maintaining taxpayer records for tens of millions of taxpayers in addition to maintaining its own financial records. To carry out this responsibility, IRS often has to rely on outdated computer systems or manual work-arounds. Unfortunately, some of IRS's recordkeeping difficulties we have reported on over the years will not be addressed until it can replace its aging systems, which is a long-term effort and is dependent on future funding.

The following 19 open recommendations would strengthen IRS's recordkeeping abilities. (See table 7.) Thirteen of these recommendations are short-term, and 6 are long-term. They include some specific

recommendations regarding requirements for new systems for maintaining taxpayer records. Several of the recommendations listed affect financial reporting processes, such as subsidiary records and appropriate allocation of costs. Some of the issues that gave rise to certain of our recommendations directly affect taxpayers, such as those involving duplicate assessments, errors in calculating and reporting manual interest, errors in calculating penalties, and recovery of trust fund penalty assessments. About 47 percent of these recommendations are almost 5 years or older and 1 is over 10 years old, reflecting the long-term nature of the resolution of some of these issues.

Table 7: Recommendations to Improve IRS’s Accurate and Timely Recording of Transactions and Events

ID. No.	Recommendations
94-02	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)
99-01	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)
99-03	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)
99-20	Analyze and determine the factors causing delays in processing and posting Trust Fund Recovery Penalty (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. (long-term)
99-36	Make enhancements to IRS financial systems to include recording plant and equipment (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)
01-17	Develop a subsidiary ledger for leasehold improvements and implement procedures to record leasehold improvement costs as they occur. (long-term)
01-39	Develop a mechanism to track and report the actual costs associated with reimbursable activities. (long-term)
02-08	Implement policies and procedures to require that all employees itemize on their time cards the time spent on specific projects. (long-term)
02-09	Implement policies and procedures to allocate nonpersonnel costs to programs and activities on a routine basis throughout the year. (long-term)
05-36	Assess options to prevent the generation or disbursement of refunds associated with accounts with unresolved Automated Under Reporter (AUR) discrepancies, including placement of a freeze or hold on all such accounts, until the AUR review has been completed. (short-term)
06-21	Generate aging reports when an asset remains in pending disposal status for longer than a specified period of time. (short-term)
06-22	Direct Facilities Management Branch managers to research and resolve the aging reports. (short-term)

ID. No.	Recommendations
07-09	Enhance its computer program to check for outstanding tax liabilities associated with both the primary and secondary Social Security Numbers shown on a joint tax return and apply credits to those balances before issuing any refund. (short-term)
07-10	Instruct Revenue Officers making the TFRP assessments to research whether the responsible officers are filing jointly with their spouses and to place a refund freeze on the joint account until the computer programming change can be completed. (short-term)
07-11	Correct the penalty calculation programs in the master file so that penalties are calculated in accordance with the applicable Internal Revenue Code and implementing IRM guidance. (short-term)
07-12	Research each of the taxpayer accounts that may have been affected by the programming errors to determine whether they contain overassessed penalties and correct the accounts as needed. (short-term)
07-13	Establish procedures and specify in the IRM that at the time of receipt, employees recording taxpayer payments should (1) determine if the payment is more than sufficient to cover the tax liability of the tax period specified on the payment or earliest outstanding tax period, (2) perform additional research to resolve any outstanding issues on the account, (3) determine whether the taxpayer has outstanding balances in other tax periods, and (4) apply available credits to satisfy the outstanding balances in other tax periods. (short-term)
07-14	Establish procedures and specify in the IRM that employees review taxpayer accounts with freeze codes that contain credits weekly to (1) research and resolve any outstanding issues on the account, (2) determine whether the taxpayer has outstanding balances in other tax periods, and (3) apply available credits to satisfy the outstanding balances in other tax periods. (short-term)
07-18	Adjust errors in recorded installment agreement user fees as necessary to correctly reflect the user fees IRS earned and collected from taxpayers. (short-term)

Source: GAO analysis of financial management recommendations made to IRS.

Proper Execution of Transactions and Events

Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees.

IRS employs tens of thousands of people in its 10 SCCs, three computing centers, and numerous field offices throughout the United States. In addition, the number of staff increases significantly during the peak of the tax filing season. Because of the tremendous number of personnel involved, IRS must maintain effective control over which employees are authorized to either view or change sensitive taxpayer data. IRS's ability to establish access rights and permissions for information systems is a critical control.

Each year, IRS pays out hundreds of billions of dollars in tax refunds, some of which are distributed to taxpayers manually.¹³ IRS requires that all manual refunds be approved by designated officials. However, weaknesses in the authorization of such approving officials expose the federal government to losses because of the issuance of improper refunds. The following open short-term recommendation would improve IRS's controls over its manual refund transactions. (See table 8.)

Table 8: Recommendation to Improve IRS's Execution of Transaction and Events

ID. No.	Recommendation
05-37	Enforce documentation requirements relating to authorizing officials charged with approving manual refunds. (short-term)

Source: GAO analysis of financial management recommendations made to IRS.

Effective Management Review and Oversight

All personnel within IRS have an important role in establishing and maintaining effective internal controls, but IRS's managers have additional review and oversight responsibilities. Management must set the objectives, put the control mechanisms and activities in place, and monitor and evaluate controls. Without effective monitoring by managers, internal control activities may not be carried out consistently and on time.

We have grouped three control activities together related to effective management review and oversight: (1) reviews by management at the functional or activity level, (2) establishment and review of performance measures and indicators, and (3) management of human capital. Although we also include the control activity "top-level reviews of actual performance" in this grouping, we do not have any open recommendations to IRS related to this internal control activity.

¹³Most refunds are generated automatically. However, under certain circumstances, IRS processes refunds manually to expedite payment. Such refunds include those over \$10 million, those requested by taxpayers for immediate payment due to hardship or emergency, those to beneficiaries of deceased taxpayers, and those that need to be expedited because IRS is in jeopardy of paying interest for exceeding the 45-day limit for processing a return.

Reviews by Management at the Functional or Activity Level

Managers need to compare actual performance to planned or expected results throughout the organization and analyze significant differences.

IRS has over 80,000 full-time employees and hires over 20,000 seasonal personnel to assist during the tax filing season. In addition, as discussed earlier, Treasury's Financial Management Service contracts with banks to process tens of thousands of individual receipts, totaling hundreds of billions of dollars. At any organization, management oversight of operations is important, but with an organization as vast in scope as IRS, management oversight is imperative.

The following 17 open short-term recommendations would improve IRS's management oversight. (See table 9.) Many of these recommendations were made to correct instances where an internal control activity either does not exist or where an established control is not being adequately or consistently applied. Several of these recommendations emphasize improvements needed to IRS's oversight of lockbox banks and contracted courier programs in order to ensure appropriate physical control over vulnerable assets, such as taxpayer receipts. However, a number of these recommendations are aimed at enhancing IRS's own assessment of its internal controls over financial reporting in accordance with the requirements of the revised OMB Circular No. A-123.

Table 9: Recommendations to Improve IRS's Reviews by Management at the Functional or Activity Level

ID. No.	Recommendations
99-22	Expand IRS's current review of campus 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)
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)
05-22	Provide a written reminder to courier contractors of the need to adhere to all courier service procedures. (short-term)
05-23	Periodically verify that contractors entrusted with taxpayer receipts and information off site adhere to IRS procedures. (short-term)

ID. No.	Recommendations
05-33	Enforce the requirement that a document transmittal form listing the enclosed Daily Report of Collection Activity forms be included in transmittal packages, using such methods as more frequent inspections or increased reliance on error reports compiled by the service center teller units receiving the information. (short-term)
05-38	Enforce requirements for monitoring accounts and reviewing monitoring of accounts. (short-term)
05-40	Enforce the requirement that command code profiles be reviewed at least once annually. (short-term)
06-11	Refine the scope and nature of its periodic reviews of candling processes at SCCs to ensure they (1) encompass tests of whether envelopes are properly candled through observation of candling in process and inquiry of employees who perform initial and final candling and (2) document the nature and scope of the test and observation results. (short-term)
06-14	Refine the scope and nature of its periodic security reviews to encompass (1) testing the effectiveness of controls intended to ensure that only individuals with proper credentials are permitted access to SCCs and lockbox banks, and (2) reviewing the integrity of perimeter security at SCCs. (short-term)
07-17	Monitor installment agreement user fee activity on a regular basis. (short-term)
07-19	Establish sufficient review procedures to help ensure that adjustments to installment agreement user fees collected from taxpayers are accurately and timely recorded. (short-term)
07-22	Document the results of internal control tests conducted in a manner sufficiently clear and complete to explain how control procedures were tested, what results were achieved, and how conclusions were derived from those results, without reliance on supplementary oral explanation. (short-term)
07-23	Clearly document how it considered existing reviews and audits in determining the nature, scope, and timing of procedures it planned to conduct under its A-123 process. (short-term)
07-24	To the extent that it intends to use the information security work conducted under the Federal Information Security Management Act of 2002 (FISMA) to meet related A-123 requirements, identify the areas where the work conducted under FISMA does not meet the requirements of OMB Circular No. A-123 and, considering the findings and recommendations of our work on IRS's information security, expand FISMA procedures or perform additional procedures as part of the A-123 reviews to augment FISMA work. (short-term)
07-25	Revise test plans to include appropriate consideration of the design of internal controls in addition to implementation of controls over individual transactions. (short-term)
07-26	Work with Treasury to identify laws and regulations that are significant to financial reporting, test controls over compliance with those laws and regulations, and evaluate and report on the results of such control reviews. (short-term)
07-27	Begin devising appropriate A-123 follow-up procedures for the last three months of the fiscal year to be implemented once the material weaknesses identified through the annual financial statement audits have been resolved. (short-term)

Source: GAO analysis of financial management recommendations made to IRS.

Establishment and Review of Performance Measures and Indicators

Activities need to be established to monitor performance measures and indicators. These controls could call for comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made and appropriate actions taken. Controls should also be aimed at validating the propriety and integrity of both organizational and individual performance measures and indicators.

IRS's operations include a vast array of activities encompassing educating taxpayers, processing of taxpayer receipts and data, disbursing hundreds of billions of dollars in refunds to millions of taxpayers, maintaining

extensive information on tens of millions of taxpayers, and seeking collection from individuals and businesses that fail to comply with the nation's tax laws. Within its compliance function, IRS has numerous activities, including identifying businesses and individuals that underreport income, collecting from taxpayers that do not pay, and collecting from those receiving refunds for which they are not eligible. Although IRS has at its peak over 100,000 employees, it still faces resource constraints in attempting to fulfill its duties. Because of this, it is vitally important for IRS to have sound performance measures to assist it in assessing its performance and targeting its resources to maximize the government's return on investment.

However, in past audits we have reported that IRS did not capture costs at the program or activity level to assist in developing cost-based performance measures for its various programs and activities. As a result, IRS is unable to measure the costs and benefits of its various collection and enforcement efforts to best target its available resources. Additionally, we have reported that IRS's controls over its reporting of interim performance measurement data were not effective throughout the year because the data reported at interim periods for certain performance measures were either not accurate or were outdated.

The following three open recommendations are designed to assist IRS in evaluating its operations, determining which activities are the most beneficial, and establishing a good system for oversight. (See table 10.) These recommendations—two long-term and one short-term—call for IRS to measure, track, and evaluate the cost, benefits, or outcomes of its operations—particularly with regard to identifying its most effective tax collection activities.

Table 10: Recommendations to Improve IRS’s Establishment and Review of Performance Measures and Indicators

ID. No.	Recommendations
99-29	Develop the data to support meaningful cost information categories and cost-based performance measures. (long-term)
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, administrative support), as well as the expected additional tax collections generated. (short-term)
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. (long-term)

Source: GAO analysis of financial management recommendations made to IRS.

Management of Human Capital

Effective management of an organization’s workforce—its human capital—is essential to achieving results and an important part of internal control. Management should view human capital as an asset rather than a cost. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible. Management should ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals. Training should be aimed at developing and retaining employee skill levels to meet changing organizational needs. Qualified and continuous supervision should be provided to ensure that internal control objectives are achieved. Performance evaluation and feedback, supplemented by an effective reward system, should be designed to help employees understand the connection between their performance and the organization’s success. As a part of its human capital planning, management should also consider how best to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities.

IRS’s operations cover a wide range of technical competencies with specific expertise needed in tax-related matters; financial management; and systems design, development, and maintenance. Because IRS has tens of thousands of employees spread throughout the country, management’s responsibility to keep its guidance up-to-date and its staff properly trained is imperative.

The following three open short-term recommendations would assist IRS in its management of human capital. (See table 11.)

Table 11: Recommendations to Improve IRS’s Management of Human Capital

ID. No.	Recommendations
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)
07-08	Require that managers or supervisors provide the manual refund initiators in their units with training on the most current requirements to help ensure they fulfill their responsibilities to monitor manual refunds and document their monitoring actions to prevent the issuance of duplicate refunds. (short-term)
07-28	Provide A-123 review staff appropriate training, such as that available for financial auditors, to enhance their skills in workpaper documentation, identification and testing of internal controls, and evaluation and documentation of results. (short-term)

Source: GAO analysis of financial management recommendations made to IRS.

Concluding Observations

Increased budgetary pressures and an increased public awareness of the importance of internal control require IRS to carry out its mission more efficiently and more effectively while protecting taxpayers and their information.

Sound financial management and effective internal controls are essential if IRS is to efficiently and effectively achieve its goals. IRS has made substantial progress in improving its financial management since its first financial audit, as evidenced by consecutive clean audit opinions on its financial statements for the past 7 years, resolution of several material internal control weaknesses, and the closing of hundreds of financial management recommendations. This progress has been the result of hard work throughout IRS and sustained commitment of IRS leadership. Nonetheless, more needs to be done to fully address the financial management challenges the agency faces. Efforts must continue to address the internal control deficiencies that continue to exist. Effective implementation of the recommendations we have made and continue to make through our financial audits and related work could greatly assist IRS in improving its internal controls and achieving sound financial management. While we recognize that some actions—primarily those related to modernizing automated systems—will take a number of years to resolve, most of our outstanding recommendations can be addressed in the short-term.

Agency Comments and Our Evaluation

In commenting on a draft of this report, IRS expressed its appreciation for our acknowledgment of the agency’s progress in addressing its financial management challenges as evidenced by our closure of 25 of the 72 open

financial management recommendations from last year's report. IRS also indicated its continued commitment to work with us to take corrective actions that appropriately address the issues identified in our recommendations. We will review the effectiveness of further corrective actions IRS has taken or will take and the status of IRS's progress in addressing all open recommendations as part of our audit of IRS's fiscal year 2007 financial statements.

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 Homeland Security and Governmental Affairs; and Subcommittee on Taxation, IRS Oversight and Long-Term Growth, Senate Committee on Finance. We are also sending copies to the Chairmen and Ranking Minority Members of the House Committee on Appropriations; and the House Committee on Ways and Means; Chairman and Vice Chairman of the Joint Committee on Taxation; the Secretary of the Treasury; the Director of OMB; 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 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 or sebastians@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs can be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

Sincerely yours,



Steven J. Sebastian
Director
Financial Management and Assurance

Appendix I: Status of GAO Recommendations from IRS Financial Audits and Related Management Reports

Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
1	94-02	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. An internal action plan has been established to improve weaknesses identified. Short-term actions include training for those who calculate interest, increased program reviews to verify adherence to procedures, and establishment of a process to resolve elevated issues.	Open. In testing a statistical sample of 45 manual interest transactions recorded during fiscal year 2006, we found eight errors relating to the calculation and recording of manually calculated interest. We estimate that 18 percent of IRS's manual interest population contains errors and concluded that IRS controls over this area remain ineffective. We will continue to monitor IRS's actions to address its control weakness in this area and determine whether to test the effectiveness of these controls in future audits.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
2	99-01	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. As of October 2006, the Small Business/Self-Employed (SBSE) division completed nationwide implementation of the new web based Automated Trust Fund Recovery (ATFR) Area Office application and centralized processing of all Trust Fund Recovery Penalty (TFRP) assessments (both automated and manual) at the Ogden campus. In addition, SB/SE conducted an analysis of the ATFR campus component. This analysis resulted in the submission of numerous work requests and Information Technology Asset Management System tickets to address deficiencies found in the current programming. SB/SE met with both Modernization & Information Technology Services (MITS) and the Chief Financial Officer (CFO) and secured concurrence on an action plan.	Open. We continue to recognize that automation of the current TFRP is needed. IRS has taken several actions to strengthen controls and correct programming or procedural deficiencies in the cross referencing of payments, including consolidating its TFRP processing at the Ogden campus. However, IRS's efforts to date have not been fully effective. In fiscal year 2006, we reviewed a statistical sample of 80 TFRP payments, made on accounts created since August 2001. We found nine instances in which IRS did not properly record the payment to all related taxpayer accounts. Of these nine payments, four were not properly recorded to all related accounts even though the accounts contained the required cross-referencing at the time the payments were made. We estimate that 11 percent of these payments may not be properly recorded. We will continue to review IRS's initiatives to improve posting of TFRP cases and test cases for proper postings to all related accounts as part of our fiscal year 2007 financial audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
3	99-03	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. IRS implemented Release 1 of the Custodial Detail Data Base (CDDDB) in February 2006 and successfully used it for the fiscal year 2006 audit to classify unpaid assessments by capturing cross-reference information on certain TFRP cases to reduce audit reclassifications a year ahead of schedule. This created the unpaid assessment subsidiary ledger that is to send weekly data to the Interim Revenue Accounting and Control System (IRACS) to post duplicate and non-duplicate TFRP assessments, all financial classifications, and accrued penalty and interest during 2007. IRS also implemented Release 2A in January 2006 and added Revenue Trace ID numbers to all payments in the Electronic Federal Tax Payment System (EFTPS) associating the payments to the deposit tickets at the transaction level for 80 percent of all payments. IRS completed the database design for Release 2B to create a subsidiary ledger for posting revenue receipts to IRACS, and plans to put this into production by October 2007. IRS is developing Release 3 to address the component of the material weakness to create a subsidiary ledger for refunds to IRACS, and to add Trace ID numbers to all remaining pre-posted revenue receipt transactions (i.e., Federal Tax Deposits, Lockbox, and Integrated Submission and Remittance Processing (ISRP)). Release 3 is planned to be in production by January 2008. IRS developed requirements and a business case in December 2006 for redesigning IRACS to become <i>United States Government Standard General Ledger (USSGL)</i> and <i>Joint Financial Management Improvement Project (JFMIP)</i> compliant, and we are pursuing funding to complete this work in fiscal year 2009.	Open. Although IRS successfully implemented the first release of CDDDB during 2006, its capability of functioning as IRS's custodial subsidiary ledger is still years away. We will continue to monitor IRS's development of CDDDB and will continue to test its effectiveness in classifying TFRP cases in IRS's unpaid assessment inventory as part of our fiscal year 2007 financial audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
4	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. Internal Revenue Manual (IRM) 21.3.4.7.4 was updated on January 20, 2006, to require the review of Form 795 and all supporting documents for accuracy (by an employee other than the recipient of the funds) before they are transmitted to Submission Processing (SP). The review is required in Taxpayer Assistance Centers (TAC) where staffing permits the completion of the review. The staffing requirement is where the group manager, secretary, or initial account representative (IAR) is collocated with other technical employees performing this work. Locations where the review is not administratively feasible will not be completed. Still, Field Assistance (FA) continued its efforts to mitigate circumstances that prevent proper segregation of duties in TACs with limited staffing and, in July 2006, approved a Service-wide Electronic Research Program (SERP) update for IRM 1.4.11.19.5 to require TAC managers to conduct quarterly reviews for payment processing and reconciliation procedures. Each employee is to be reviewed a minimum of two times each quarter and reviews are to be discussed with the employee as an evaluative record of performance. The requirement to conduct the reviews will increase the presence of TAC managers in all TACs, including outlying sites and those with limited staffing. Increased managerial presence and reviews will help mitigate the risks associated with not having segregation of duties in small TACs.	Open. During our fiscal year 2006 audit, we found that payment receipts were recorded in a control log. The control log information was agreed to the receipts prior to sending the receipts and control log to the submission processing center for further processing. However, during our subsequent review of IRS's corrective actions in this area we found that the reviews required in the July 2006 IRM update were not always performed as intended. We will continue to evaluate IRS's corrective actions to ensure that receipts are processed according to standards and properly segregated among employees during our fiscal year 2007 audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
5	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. (long-term)	<i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> (GAO/AIMD-99-193 , Aug. 4, 1999)	Open. As of October 2006, SBSE completed nationwide implementation of the new Web based ATFR Area Office application and centralized processing of all TFRP assessments (both automated and manual) at the Ogden campus. In addition, SB/SE conducted an analysis of the ATFR campus component. This analysis resulted in the submission of numerous work requests and Information Technology Asset Management System tickets to address deficiencies found in the current programming. SB/SE met with both MITS and CFO and secured concurrence on an action plan.	Open. We continued to find long delays in IRS's processing and posting of TFRP assessments during our fiscal year 2006 financial audit. In one case, we noted that the revenue officer made the TFRP determination in March of 2003 but IRS did not record the assessment on the officer's account until February 2006. We will continue to review IRS's initiatives to improve posting of TFRP assessments and monitor TFRP processing timeliness as part of our fiscal year 2007 audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
6	99-22	Expand IRS's current review of campus 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)	Open. To ensure that all TE/GE Examination employees were familiar with the over stamping requirement, TE/GE took a number of steps to educate employees. In addition, all TE/GE Examination groups were required to order a "United States Treasury" stamp, and the directors confirmed that all managers in their areas had ordered the stamps. Finally, TE/GE included in the annual performance plan of critical executives and other managers who oversee examination functions a commitment to implement a 12-point action plan. TE/GE has addressed the safeguarding of receipts through the publication of a "Quick Reference Guide for Processing Checks in TE/GE Examination" and a July 18, 2005 Managers Alert. TE/GE also developed a checklist for use in Examination groups to ensure conformance with GAO's concerns and this checklist was incorporated in appropriate fiscal year 2006 performance plans. Large and Mid-sized Business (LMSB) issued two memorandums to all field executives on the need for proper endorsement of checks by proper use of this stamp. LMSB required that each field executive "certify" that each group either had in their possession or was able to obtain the stamp. LMSB will be requesting that its Training Branch include this topic when the module on remittance training is presented. LMSB has procedures in place to safeguard receipts. Small Business/Self-Employed (SB/SE) issued a Managers Message regarding over stamping and receipt transmittal (Form 3210) controls in April 2006. SB/SE also updated Collection and Examination IRM procedures regarding over stamping, physical security over remittances, and Form 3210 controls. SB/SE will continue to reinforce these procedures through management communications and other area-level reviews.	Open. IRS's corrective actions affecting the (1) SB/SE, (2) LMSB, and (3) TE/GE tax operating divisions do not entail the recommended expansion of IRS's current reviews at the service center campuses (SCC) and taxpayer assistance centers. In addition, during our fiscal year 2006 audit, we found a lack of controls over safeguarding taxpayer receipts and information at one SB/SE unit. We will evaluate IRS's corrective actions during our fiscal year 2007 audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
7	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)	Open. IRS is enhancing the Service's existing Financial Management Information System (FMIS) with the new CDDDB and by pursuing funding to enhance the IRACS to interface with future releases of CDDDB and the Customer Account Data Engine (CADE). This will reduce the material weaknesses by improving financial reporting compliance, and making the general ledger system USSGL and JFMIP requirements compliant. This will reduce the level of effort each year for the audit, and reduce the reliance on master file extracts and ad hoc procedures. Contractor support will continue to supplement compensating procedures while CDDDB is finalized, and until the IRACS redesign is funded and in development.	Open. The objective of this recommendation was to ensure that IRS had appropriate staff resources at key positions to perform the master file extraction and other ad hoc procedures to support IRS's preparation of the financial statements in the event of staff attrition. In fiscal year 2006, IRS continued to augment its own resources with contractor support to produce auditable financial statements. In addition, during our review of the key master file reconciliations used to support preparation of the financial statements, we found that these reconciliations were hampered when a former IRS staff was no longer available to perform them. We will continue to assess IRS's actions during our fiscal year 2007 audit.
8	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. The Integrated Financial System (IFS), implemented on November 10, 2004, includes a cost module that provides basic cost data to managers. IRS cannot rely on the system as a significant planning and decision-making tool. It will likely require several years and implementation of additional components, such as a workload management system, as well as integration with its tax administration activities, before the full potential of IRS's cost accounting module will be realized. In the interim, IRS is working on two cost pilots in which it is determining the full cost for two product lines.	Open. We will follow up during future audits to assess IRS's progress in implementing a cost accounting system and populating it with the cost information needed to support meaningful cost-based performance measures. We will also review the cost pilots IRS is developing in the interim.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
9	99-36	Make enhancements to IRS financial systems to include recording plant and equipment (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)	Closed. IFS, implemented on November 10, 2004, property and equipment, including capital leases, are recorded as assets when purchased. During fiscal year 2006, IRS improved the accuracy and reliability of its P&E accounting records by enhancing accounting code definitions, improving coordination, and streamlining analysis of P&E transactions. On the basis of these actions and elimination of the reportable condition on P&E, this recommendation is closed.	Open. IRS implemented the first release of IFS on November 10, 2004, which allowed recording the majority of P&E activity as assets when purchased. However, due to ongoing technological advances and budgetary constraints, IRS is no longer committed to implementing additional releases of IFS, which were to include an integrated property asset module. Rather, IRS is considering all other options available to provide these capabilities. We will monitor IRS's strategy in addressing these financial management system issues.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
10	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, 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's Collection Governance Council (consisting of executives in SB/SE, W&I, and LMSB), established in August 2005, continues to mature, enhancing coordination across the enterprise for collection issues. The following initiatives will drive improvement in the agency's collection resource allocation decisions: IRS created a workload delivery model that integrates the work plans of each source of assessment to evaluate the overall impact on downstream collection operations. It also developed a study group, called Corporate Approach to Collection Inventory (CACI), to look at case delivery practices from an overall perspective and make recommendations for changes to case routing and assignment priorities. It also monitors its non-filer strategy and work plan to improve the identification of and selection of non-filer cases, then balances the working of non-filer inventory with balance-due inventory. In addition, IRS has an ongoing project to enhance its decision analytical models used for selecting cases based on their predicted collection potential to apply decision analytics to both delinquent accounts and unfiled returns; apply decision analytics to all categories of taxpayer not just small business, self-employed; expand the use of internal and external data sources to improve the portion of cases predicted by the models; ultimately develop alternative treatment strategies based on the least costly treatment indicated by the models; and update definitions for complex cases to improve routing to field collection.	Open. IRS has initiated several projects to build additional analytical models to improve its ability to route cases to the appropriate collection activity and is developing a corporate strategy for working collection cases. We will continue to review IRS's initiatives to manage resource allocation levels for its collection efforts.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
11	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. IRS continues to address the root causes of untimely lien releases such as untimely posting of payments, untimely credit transfers, certificate of release missing from automated lien system/one taxpayer released from lien by bankruptcy discharge, billing support vouchers with no date stamp for proof of mailing, and untimely adjustments.	Open. During our fiscal year 2006 audit, we continued to find delays in release of liens. In fiscal year 2006, IRS performed its own test of the effectiveness of its lien release process as part of implementing the requirements of the revised OMB Circular No.A-123 and we reviewed and validated its test results. IRS found 26 instances out of 84 cases tested in which it did not release the applicable federal tax lien within the statutory period. On the basis of these results, IRS estimates that for 31 percent of unpaid tax assessment cases in which it had filed a tax lien that were resolved in fiscal year 2006, IRS did not release the lien within 30 days. The time between the satisfaction of the liability and release of the lien ranged from 44 days to 638 days. We will assess the impact of IRS's latest actions and continue to review IRS's release of tax liens as part of our fiscal year 2007 financial audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
12	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. (long-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. IRS's cost allocation methodology was reviewed and enhanced for fiscal year 2006 and further refinements will be implemented each year. The first year's data will be reviewed in fiscal year 2006 and a plan developed for integrating cost data in decision making. The use of the data will be tested in fiscal year 2007 with baseline data. However, to achieve maximum benefit in decision making, several years' data will be needed. As a result, IRS will fully implement the use of cost accounting data for resource allocation decisions in fiscal year 2008.	Open. During our fiscal year 2006 audit, IRS indicated that the objective of the first year's cost data review process was to make sure the data were accurate, the cost accounting system was working properly, and the data could be used to make budgetary decisions. IRS has indicated that its plan for integrating cost data in the decision-making process will be determined after the baseline data are established. IRS plans to conduct several cost pilots in fiscal year 2007 and intends to use the test data from the pilots to establish the baseline data. IRS has indicated that it is planning to fully implement the use of cost accounting data for resource allocation decisions in fiscal year 2008 to the extent possible. We will continue to follow up on IRS's progress on this issue during our fiscal year 2007 audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
13	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)	Closed. P&E, including capital leases, are recorded as assets when purchased. During fiscal year 2006, IRS improved the accuracy and reliability of its P&E accounting records by enhancing accounting code definitions, improving coordination, and streamlining analysis of P&E transactions. Based on these actions and elimination of the reportable condition on P&E, this recommendation is closed.	Open. IRS implemented the first release of IFS on November 10, 2004, which allowed recording leasehold improvements as assets when purchased. However, due to ongoing technological advances and budgetary constraints, IRS is no longer committed to implementing additional releases of IFS, which were to include an integrated property asset module. Rather, IRS is considering all other options available to provide these capabilities. We will monitor IRS's strategy in addressing these financial management system issues.
14	01-39	Develop a mechanism to track and report the actual costs associated with reimbursable activities. (long-term)	<i>Management Letter: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001)	Open. IRS has developed guidance for costing reimbursable agreements, which includes instructions on tracking labor. IFS includes a cost module that provides basic cost data to managers. During fiscal year 2006, IRS further improved its methodology for allocating its costs of operations to its business units. This methodology uses the cost accounting module of IFS, allows IRS to accumulate the full costs of operating each business unit, and provides more detail on allocated costs. Actions are ongoing in fiscal year 2007 to begin gathering the actual cost of selected reimbursable projects.	Open. We confirmed that IRS has procedures for costing reimbursable agreements that provide the basic framework for the accumulation of both direct and indirect costs at the necessary level of detail. IRS has improved its methodology for allocating its costs of operations to its business units. However, as indicated by IRS, further actions are needed for it to accumulate and report actual costs associated with reimbursable projects. We will continue to monitor IRS's efforts to fully implement its cost accounting system and, once it has been fully implemented, evaluate the effectiveness of IRS procedures for developing cost information for its reimbursable agreements.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
15	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. Most IRS employees already itemize their time charges in functional tracking systems. IFS provides basic cost data to managers. During fiscal year 2006, IRS further improved its methodology for allocating its costs of operations to its business units. This methodology uses the cost accounting module of IFS, allows IRS to accumulate the full costs of operating each business unit, and provides more detail on allocated costs.	Open. We confirmed that IRS had improved its cost accounting capability from prior fiscal years. However, the cost accounting module did not provide IRS with the ability to produce full cost information for specific activities and programs. IRS is developing a strategy and action plan to enhance cost data and integrate budget and performance data. We will continue to monitor IRS's efforts to fully implement its cost accounting system, and, once it has been fully implemented, evaluate the effectiveness of IRS's procedures for developing cost information to use in resource allocation decisions.
16	02-09	Implement policies and procedures to allocate nonpersonnel costs to programs and activities on a routine basis throughout the year. (long-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Open. IFS provides basic cost data to managers. During fiscal year 2006, IRS further improved its methodology for allocating its costs of operations to its business units. This methodology uses the cost accounting module of IFS, allows IRS to accumulate the full costs of operating each business unit, and provides more detail on allocated costs.	Open. We confirmed that IRS has improved its cost accounting capabilities by developing and implementing a methodology for allocating its costs of operations to its business units. However, further actions are needed to enable IRS to allocate nonpersonnel costs associated with specific programs and activities. We will continue to monitor IRS's efforts to fully implement its cost accounting system and, once it has been fully implemented, evaluate the effectiveness of IRS's procedures for developing cost information to use in resource allocation decisions.

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17	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. IRM 21.3.4.7.4 was updated on January 20, 2006, to require the review of Form 795 and all supporting documents for accuracy (by an employee other than the recipient of the funds) before they are transmitted to SP. The review is required in TACs where staffing permits. In exploring procedures in January 2006 for TACs with limited staffing where there is no manager, secretary, or IAR, FA determined proposed procedures to be burdensome, difficult to administer, and not administratively feasible (e.g., copying and faxing Form 795 to the manager). Also, based on a September 2005 report by the Treasury Inspector General for Tax Administration (TIGTA) on payments received at TACs (report No. 2005-40-148), 99 percent of payments posted appropriately to taxpayer accounts. This accuracy rate combined with compensating controls at the Submission Processing Centers (SPC) effectively reduces risks associated with not having reconciliation processes in small TACs. Still, FA continued its efforts to mitigate circumstances that prevent proper segregation of duties in TACs with limited staffing and, in July 2006, approved a SERP update for IRM 1.4.11.19.5 to require TAC managers to conduct quarterly reviews for payment processing and reconciliation procedures. Each employee is to be reviewed a minimum of two times each quarter and reviews are to be discussed with the employee as an evaluative record of performance. The requirement to conduct the reviews will increase the presence of TAC managers in all TACs, including outlying sites and those with limited staffing. Increased managerial presence and reviews will help mitigate the risks associated with not having segregation of duties in small TACs.	Open. During our fiscal year 2006 audit, we found a lack of segregation of duties related to preparation and review of receipt transmittals (Form 3210) at two of the nine TACs we visited. At these locations, the TAC managers implemented the review process for Forms 3210 on the dates of our internal control test. While the TIGTA report cited by IRS addresses the accuracy of the payments posted, it does not address the risk of payments not being recorded. Segregation of duties is a key control used to reduce the risk of unposted payments due to error and fraud related to revenue receipt transactions. Also, IRS has noted that changes were made to its IRM in July 2006 to require quarterly reviews of payment processing and reconciliation procedures. However, we found that the required reviews were not always performed as intended. We will continue to evaluate IRS's corrective actions during our fiscal year 2007 audit.

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18	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)	Closed. In July 2005, NFC demonstrated a Web-version of SETS and more IRS requirements are to be accommodated in that system. To date, IRS has not received a projected implementation from NFC. Monthly reports are being reviewed and analyzed. Problems are reported to Agency-Wide Shared Services (AWSS) to address with the Department of the Treasury and NFC. AWSS continues to monitor SETS reports for each pay period and coordinates with employment offices when corrections are needed. IRS and NFC continue to engage in ongoing discussions on reconciliations and error adjustments as needed. NFC controls the timetable for deploying a web version of SETS; however, no time table has been set and no meetings are being convened.	Open. As of the end of our fiscal year 2006 audit, IRS and NFC had not completed their deployment of the Web-based version of the SETS database. We will continue to monitor IRS's actions during our fiscal year 2007 audit.
19	03-15	Require lockbox management to ensure that envelopes are properly candled and that IRS takes steps to monitor adherence to this requirement. (short-term).	<i>Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. Effective October 2005, candling reviews are conducted at all lockbox bank sites to ensure all candling requirements are met. These internal control reviews ensure that envelopes opened (manually or by OPEX) on three or more sides are candled once and that envelopes other than the ones opened on three or more sides are candled twice. The results of these reviews are used to calculate each bank's performance score. As a result of implementing these measures in the first year, an unfavorable score can result in IRS deeming the subject bank ineligible to bid for new work or additional volume, loss of current work, or placing the bank in a probationary status. Additionally, there were no lockbox findings issued for candling during the fiscal year 2006 financial statement audit.	Closed. We verified that lockbox management conducts reviews to ensure that envelopes are properly candled. During our fiscal year 2006 audit, we did not find any instances in which envelopes were not being properly candled at the four lockbox banks that we visited.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
20	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 30, 2003)	Closed. During 2002, FMS issued an amendment to the courier Memorandum of Understanding (MOU), which included the requirement that all courier employees satisfy the basic investigation, including a Federal Bureau of Investigation (FBI) fingerprint and name check. All 10 IRS campuses now have a contact responsible for submitting paperwork to the National Background Investigations Center (NBIC) and ensuring courier employees are granted clearance. During 2003, IRS required NBIC to provide monthly status reports of the campus compliance with this requirement. During fiscal year 2006, all courier MOUs and NBIC reports were received monthly, enabling IRS to identify problems and issues more quickly.	Closed. During our fiscal year 2006 audit, we found no instances in which updated courier service contracts did not contain the requirements for background and fingerprint checks.
21	03-32	Prohibit the storage of employees' personal belongings with cash payments and receipts at IRS's taxpayer assistance centers. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R , May 30, 2003)	Closed. TAC procedures (IRM 21.3.4.7.3.1(2)) prohibit storing of personal items with any taxpayer-related documents. Procedures further prohibit storing taxpayer receipts in the same storage container with employee personal items. Personal items and taxpayer-related documents must not be stored in the same container under the same locking device.	Closed. We verified that IRS prohibits its employees from storing personal belongings with any taxpayer-related documents.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
22	04-03	Develop procedures to require lockbox managers to provide satisfactory evidence that managerial reviews are performed in accordance with established guidelines. At a minimum, reviewers should sign and date the reviewed documents and provide any comments that may be appropriate in the event that their reviews identified problems or raised questions. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, April 26, 2004)	Closed. During fiscal year 2006, IRS established and implemented a new Data Collection Instrument (DCI) review, entitled "Processing-Internal Controls." During on-site reviews, the following logs are required to be reviewed: desk and work area, date stamp, cash, candling, shred, and mail. The results of these DCI reviews are rolled into a calculation to determine each bank's score in the new bank performance measurement process. In addition, lockbox personnel are required to perform similar reviews monthly and report results to the lockbox field coordinators (FC). The report must contain the following: date of review, shifts reviewed, results of the review (even when no items are found), and reviewer's and site manager's initials and/or signature as required by the Lockbox Processing Guidelines (LPG). To further strengthen this internal control, effective June 1, 2006, additional review of the monthly reports (F9535/Discovered Remittance, candling log, disk checks/audits, and shred) received from the lockbox site was performed by the lockbox FC. Specific check points were added to the "Monthly Reports" DCI that is a part of the procedural DCI performed at the SPC. In addition to confirming the receipt and timeliness of the reports, coordinators reviewed the reports to ensure they were complete per the LPG requirements and that all required management signatures/initials were present to provide satisfactory evidence that the managerial reviews are performed.	Open. We verified that IRS established and implemented a processing internal control DCI and scorecard to measure whether managerial reviews are performed at lockbox banks of logs, including desk and work area, date stamp, cash, candling, shred, and mail. However, during our fiscal year 2006 audit, we identified instances at two lockbox banks we visited where lockbox managers or their designees had not documented managerial reviews of courier logs. We will continue to evaluate IRS's corrective actions during our fiscal year 2007 audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
23	04-07	Develop procedures to enhance adherence to existing instructions on safeguarding discovered remittances at service center campuses. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, April 26, 2004)	Closed. IRM 3.8.46, Discovered Remittances, was issued during 2003 and 10,000 copies were distributed to all campuses. Form 4287 (Record of Discovered Remittances) was revised to enhance adherence to existing instructions by including a check box for managers to indicate the reconciliation was performed. Additionally, SP revised the monthly security checklist to include a review of the discovered remittance procedures. A Discovered remittances job aid was added to IRM 3.8.46. During the monthly security checklist reviews, it was observed that noncompliance generally occurred in functions outside SP. Therefore, SP is committed to conducting quarterly meetings with the noncompliant offices to reinforce discovered remittances procedures.	Closed. We verified that the IRM contains a discovered remittances job aid to be used for recording discovered remittances.
24	04-08	Enforce policies and procedures to ensure that service center campus security guards respond to alarms. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, April 26, 2004)	Closed. IRM 1.16.12 has been revised and implemented to reflect the testing of alarms and guard response requirements. The Physical Security and Emergency Preparedness Office (PSEP) has developed self-assessment procedures to conduct random testing of guard response to alarms at all campuses and computing centers. Report forms have also been developed to capture test results. The unannounced tests are performed quarterly and guard responses as well as any malfunction of equipment will be documented and followed up for corrective action. The testing ensures that guards respond to alarms expeditiously and that malfunctioning equipment is identified and corrective actions are identified and followed through until the correction is completed.	Open. We verified that IRS has taken steps to ensure that SCC security guards respond to alarms, which include revising the IRM to reflect the testing of alarms and guard response requirements and conducting unannounced alarm tests. However, during our fiscal year 2006 audit, we found instances at two of four SCCs we visited where guards did not respond to our tests of door alarms. We will evaluate IRS's corrective actions during our fiscal year 2007 audit.

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25	04-09	Establish compensating controls in the event that automated security systems malfunction, such as notifying guards and managers of the malfunction, and immediately deploying guards to better protect the processing center's perimeter. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, April 26, 2004)	Closed. Mission Assurance (MA) developed alarm testing procedures which are used to supplement the requirements in IRM 1.16.12. The IRM and supplemental procedures require the notification of local management whenever there is a malfunction of alarms. The procedures also require that guards are deployed or doors are secured, as necessary, either during tests or when otherwise identified. The contract guard force project manager is required to sign off on all unannounced alarm test reports. Test results are maintained by the PSEP office.	Closed. We verified that IRS revised language in the IRM that addresses specific compensating actions to be taken in the event of sporadic malfunctioning alarms or an overall system failure.
26	04-15	Until the Business Performance Management System (BPMS) is fully operational, implement procedures to ensure that all performance data reported in the MSP report are subject to effective, documented reviews to provide reasonable assurance that the data are current at interim periods. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, April 26, 2004)	Closed. IRS has taken steps to ensure that the performance measures data reported in the monthly report are properly reviewed before being published. All divisions now submit most of their performance measures data directly to BPMS. The divisions are required to verify/certify the accuracy of the data before uploading to BPMS. Corporate Performance Budgeting staff implemented additional manual quality control procedures that include reviewing all tables, charts, and line graphs and visually inspecting the numbers and comparing the information to the previous month's report for consistency. In addition, IRS is working with Treasury to streamline its current set of performance measures. Its purpose is to increase the value of the information provided to stakeholders, focus priorities, and reduce administrative burden.	Closed. During our fiscal year 2006 financial audit of IRS, we reviewed IRS's process for compiling its performance measures, including its BPMS, and reviewed supporting documentation and calculations of two interim performance measures. We did not identify any exceptions in our test of IRS's performance measures at the interim testing period.

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27	05-03	Research and resolve the current backlog of unresolved unmatched exception reports. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> (GAO-05-26R, Jan. 10, 2005)	Closed. All backlogs were resolved the week ending May 12, 2006, and an extract was run to verify that all entries had been resolved.	Closed. IRS's Centralized Case Process/Lien Processing Unit at the Cincinnati campus researched and resolved its backlog of unresolved unmatched exception reports. In February 2007, we observed that there was no backlog of unresolved, unmatched exception reports.
28	05-04	Research and resolve unmatched exception reports weekly. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> (GAO-05-26R, Jan. 10, 2005)	Closed. Lien Unit managers ensure that the unmatched exception report is pulled and resolved weekly within 5 business days. As an additional control, a subsequent extract report is produced to identify any potentially unresolved modules in order to ensure all accounts are worked. With the implementation of the September 2006 Automated Lien System (ALS) 8.3 release, the extract will no longer be necessary as the weekly report will be cumulative. Existing inventory is captured weekly on local monitoring reports.	Closed. IRS's Centralized Case Process/Lien Processing Unit is currently researching and resolving unmatched exception reports weekly within 5 business days. In February 2007, we observed that IRS was researching and resolving unmatched exception reports weekly.
29	05-06	Research and resolve the current backlog of unresolved manual interest or penalties reports. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> (GAO-05-26R, Jan. 10, 2005)	Closed. This recommendation is closed based on the completion of the backlog as verified by an extract report showing no inventory for restricted interest.	Closed. IRS's Centralized Case Process/Lien Processing Unit completed researching and resolving its backlog of unresolved manual interest or penalties reports. In February 2007, we verified that there was no backlog of unresolved manual interest or penalties reports.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
30	05-07	Research and resolve exception reports containing liens with manually calculated interest or penalties weekly, as called for in the Internal Revenue Manual and the ALS User Guide. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> (GAO-05-26R, Jan. 10, 2005)	Closed. ALS receives a master file data extract listing modules where liabilities have been fully paid. The data extract that is matched against information in the ALS system automatically releases liens when there is a match, including restricted interest and penalty modules. After a review of 300 satisfied modules, IRS identified five cases with additional restricted interest or penalty. The remaining amounts due after computation were for very small amounts, less than \$10. On the basis of those reviews, IRS determined these cases should receive systemic releases.	Closed. IRS reprogrammed its ALS to automatically release liens once the taxpayer's account was fully paid, even if it contains a manual interest indicator. Previously, IRS's IRM required it to review accounts containing a manual interest or penalty indicator, to determine whether the manually recorded interest and penalty amounts were correct and whether it should assess the taxpayer any additional interest or penalty before releasing the lien. IRS has decided not to hold up the lien release on such accounts for a review and has changed its computer programming to automatically release the lien once the account balance reaches zero. We obtained and reviewed a computer extract from February 2007 showing that accounts containing manual interest or penalty are no longer held up from automated lien release.
31	05-09	Improve the current unmatched exception report by including a cumulative list of all unmatched taxpayer accounts that have not been resolved to date. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> (GAO-05-26R, Jan. 10, 2005)	Closed. Effective July 21, 2006, the Satisfied Module Rejected Report became a cumulative report. Rejected releases are listed and remain on the report until resolved.	Closed. We verified that IRS improved the current unmatched exception report by changing it to a cumulative list of all unmatched taxpayer accounts that have not been resolved to date.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
32	05-11	Enforce adherence to existing instructions on safeguarding taxpayer receipts and information, such as securing access and candling procedures, at service center campuses selected for significant reductions in their submission processing functions. (short-term)	<i>Management Report: Review of Controls over Safeguarding Taxpayer Receipts and Information at the Brookhaven Service Center Campus</i> (GAO-05-319R, Mar. 10, 2005)	Closed. IRS has enforced adherence to existing instructions on safeguarding taxpayer receipts and information by including this requirement in the monthly Campus Security Reviews which are also reviewed annually by the National Office Security Review Team at selected sites. Local management continually reinforces these requirements through employee counseling and individual and group meetings with security clerks to ensure procedures for issuance of badges, inventory of badges, and security of taxpayer receipts and information. Meetings have also been held to discuss candling procedures. Local management conducts weekly and monthly reviews to ensure adherence to these procedures. Additional refresher training, alerts, and managerial review were implemented to reinforce compliance with IRM 1.4.16.5.9 requirements for managerial and clerical reviews.	Open. We verified that IRS has implemented monthly Campus Security Reviews, local management reviews, and alerts to enforce adherence to existing instructions on safeguarding taxpayer receipts and information by SCCs selected for significant reductions in their submission processing functions. However, during our fiscal year 2006 audit, we found instances at one SCC selected for significant reductions in its submission processing functions where mail potentially containing taxpayer receipts was not secured overnight. We will evaluate IRS's corrective actions during our fiscal year 2007 audit.
33	05-12	Document a methodology for estimating anticipated rapid changes in mail volume at future SCCs selected for significant reductions in their submission processing functions, taking into consideration factors such as the prior rampdown experience at Brookhaven. (short-term)	<i>Management Report: Review of Controls over Safeguarding Taxpayer Receipts and Information at the Brookhaven Service Center Campus</i> (GAO-05-319R, Mar. 10, 2005)	Open. IRS has drafted a methodology using historical data obtained from the Brookhaven and Memphis campus ramp-down. Pending approval by the Director of Accounts Management for Wage and Investment (W&I), this methodology will be used in future consolidations to ensure that IRS has reliable data to effectively manage resources during and after the consolidation period.	Open. We will evaluate IRS's efforts to develop and document an approved methodology for estimating mail volume for future sites selected for ramp-down during our fiscal year 2007 audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
34	05-13	Enforce its existing requirement that appropriate background investigations be completed for contractors before they are granted staff-like access to service centers. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. MA & Security Service (SS) physical security analysts issue identification (ID) media to contractors upon receipt of the following from the Contracting Officer's Technical Representative (COTR): (1) Non-IRS Identification Card Request, (2) Request for ID Media/Access Card for Contract Employee or similar request form, (3) NBIC clearance letter, and (4) Personal Identity Verification for Federal Employees and Contractors form. These documents are maintained on-site by the MA & SS Physical Security Office where ID media is issued.	Open. We verified that IRS issued guidance to enforce its existing background investigation requirement. However, a recent TIGTA report on IRS's background investigation process indicates that IRS continues to allow contractors to access its facilities and computer systems before favorable background investigations are completed. We will continue to evaluate IRS's enforcement, oversight, and implementation of its contractor background investigation policies during our fiscal year 2007 audit.
35	05-14	Require that background investigation results for contractors (or evidence thereof) be on file where necessary, including at contractor worksites and security offices responsible for controlling access to sites containing taxpayer receipts and information. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. MA & SS physical security analysts issue ID media to contractors upon receipt of the following from the COTR: (1) Non-IRS Identification Card Request, (2) Request for ID Media/Access Card for Contract Employee or similar request form, (3) NBIC clearance letter, and (4) Personal Identity Verification for Federal Employees and Contractors form. These documents are maintained onsite by the MA & SS Physical Security Office where ID media is issued.	Open. We were not able to verify that IRS requires the results of background investigation for contractors be maintained at the contractor's work site. In addition, according to a recent TIGTA report on IRS's background investigation process, TIGTA was unable to complete its analysis on whether contractor employees were granted access to IRS's systems before favorable background checks were completed because IRS could not provide the proper documentation verifying that all prescreening tests had been completed. We will continue to evaluate IRS's corrective actions and implementation of its contractor background investigation policies in our fiscal year 2007 audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
36	05-22	Provide a written reminder to courier contractors of the need to adhere to all courier service procedures. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Closed. Effective January 1, 2006, the lockbox banks must provide an annual memorandum to the courier contractor reminding them that they must adhere to all of the courier service procedures in the Lockbox Security Guidelines (LSG). For the campuses, Service Center Accounting held a conference on January 31, 2006, with Treasury's Financial Management Service (FMS), the Federal Reserve Banks, and the servicing Treasury's General Account (TGA) banks and reinforced all policies and procedures governing the courier process as outlined in IRM 3.8.45. We will continue to reinforce policies and procedures governing the courier. For lockbox banks, the Security Team verified that all lockbox bank sites issued an annual memorandum to courier contractors reminding them to adhere to all courier service procedures in the LSG.	Open. IRS's response does not address written reminders provided to SCC couriers. Also, during our fiscal year 2006 audit we did not observe that notifications to SCC couriers had been made by the end of our fieldwork. We will continue to evaluate IRS's corrective actions in our fiscal year 2007 audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
37	05-23	Periodically verify that contractors entrusted with taxpayer receipts and information off site adhere to IRS procedures. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Closed. Lockbox banks' LSG 2.12 requires that while transporting the data from the lockbox facility, the courier vehicle used to transport taxpayer data/remittances must be locked and secured, driven directly to the destination, and must always be under the supervision of the courier. All couriers are required to complete the same National Agency Check and Inquiry with Credit Investigation (NACIC) as bank management officials. For specific transport activities, deposit ticket and deposit transport time frames are reviewed as part of Lockbox Performance Measures. For lockbox banks, a new requirement will become effective in early 2007 that ensures that the lockbox bank sites are receiving dedicated transport service that complies with the requirement of the LSG. Lockbox management shall follow the courier service vehicle while the courier is carrying IRS lockbox deposits. This review shall be conducted unannounced at least once per quarter. This procedure has been included in LSG under 2.15 "Lockbox Bank Courier Service review, Transport of Deposit." Also, effective January 1, 2007, the Courier's DCI requires the Security Team to observe a courier run at each lockbox site to ensure dedicated courier service is being provided. For campuses, couriers sign, date, and notate the time of pick up on Form 10160. When the couriers drop off the deposit, Form 10160 is date and time stamped. Each campus reviews the form and notes any time discrepancies. Couriers are questioned if discrepancies are found and the information is notated in the Courier Incident Log. If something out of the ordinary is noted, the centers use their discretion to make a determination whether or not it is necessary to trail the couriers.	Open. We verified that IRS revised its LSG to provide for periodic verification that couriers adhere to IRS policy while in transit. However, IRS's corrective actions occurred subsequent to our fieldwork. We will evaluate IRS's corrective actions during our fiscal year 2007 audit.

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38	05-25	Formulate a policy to require that critical utility or security controls not be located in areas requiring frequent access. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Closed. MA & SS worked with the Business Operating Divisions (BOD) and Procurement to formulate policy guidelines. The Lockbox Policy Guidelines, dated January 10, 2006, have been revised. LSG 2.2.1 Main Utility Feeds, includes physical protection of all utilities against accidental or intentional disruption of services. Exterior utilities will be physically protected with bollards, fencing, or similar obstruction to prevent destruction. Where critical controls relative to utility feeds and security systems are located in rooms or areas frequented by contract employees, there must be continuous closed-circuit television (CCTV) coverage as well as tamper-proof devices on those controls such as fencing, locks, or other protections. LSG 2.2.2.12 page 18(5) has been revised to state that to prevent unauthorized access to control panels or critical systems, keys must be secured and controlled.	Closed. We verified that the LSG requires physical protection of all main utility feeds against accidental or intentional disruption of service. While the LSG does not require that critical utility or security controls not be located in areas requiring frequent access, the LSG does require that frequently accessed areas where utility feeds are present must be continuously monitored with CCTV coverage as well as tamper-proof devices installed on those controls such as fencing, locks, or other protections. Therefore, we believe that IRS's corrective actions meet the objective of our recommendation.
39	05-26	Require lockbox bank management to position closed-circuit television cameras to enable monitoring of secured areas containing sensitive systems or controls. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Closed. Mission Assurance has developed and incorporated a CCTV evaluation matrix into the security review process ensuring that critical areas and assets are monitored. The January 1, 2007, LSG was revised under (CCTV Cameras) LSG 2.2.2.13.1 (6) and it states that Pan, Tilt, Zoom (PTZ) cameras shall be installed in mail sorting, mail delivery, mail extraction, exceptions processing, and certified mail processing areas to ensure sites have the capability to observe, monitor, and record mail extraction activity and to assist in monitoring. Also, the LSG requires that IRS security controls, equipment, and utilities must be locked to prevent tampering and that keys will be controlled and limited to authorized bank employees. Mission Assurance also included key and combination controls and management as part of its review process at the banks.	Closed. We verified that the LSG requires physical protection of all main utility feeds against accidental or intentional disruption of service. While the LSG does not require that critical utility or security controls not be located in areas requiring frequent access, the LSG does require that frequently accessed areas where utility feeds are present must be continuously monitored with CCTV coverage as well as tamper proof devices installed on those controls such as fencing, locks, or other protections. Therefore, we believe that IRS's corrective actions meet the objective of our recommendation.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
40	05-32	Establish policies and procedures to require appropriate segregation of duties in small business/self-employed units of field offices with respect to preparation of Payment Posting Vouchers, Document Transmittal forms, and transmittal packages. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. The procedures have been established, updated, and approved for IRM 5.1.2. Hard copies were shipped to all applicable employees on September 15, 2006.	Open. IRS has taken corrective actions to address this recommendation. However, the corrective actions do not address segregation of duties in SB/SE business units. We will continue to evaluate IRS's corrective action in our fiscal year 2007 audit.
41	05-33	Enforce the requirement that a document transmittal form listing the enclosed Daily Report of Collection Activity forms be included in transmittal packages, using such methods as more frequent inspections or increased reliance on error reports compiled by the service center teller units receiving the information. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. Since 2005, W&I Field Assistance has taken a number of actions to emphasize the requirement for including a document transmittal form listing the Daily Report of Collection Activity forms in transmittal packages. These actions include (1) providing remittance training to all TAC managers in 2005 that covered procedures for remittance processing, (2) conducting operational reviews in fiscal year 2006 to ensure TAC adherence to required IRM procedures, (3) identifying best practice ideas, and (4) assessing conformance to current policies and procedures. A review of error reports for fiscal year 2005 and fiscal year 2006 shows a 38 percent decrease in the number of "Other 795/3210" errors. IRS attributes the decrease in errors (from 2,753 to 1,696) to the actions described above and others designed to improve remittance procedures. The SB/SE procedures have been established, updated, and approved in IRM 5.1.2. Hard copies were shipped to all applicable employees on September 15, 2006.	Open. During our fiscal year 2006 audit, we identified that a document transmittal was not always included when multiple Daily Report of Collection Activity forms were sent to the aligned service center campus. We will continue to evaluate IRS's corrective actions during our fiscal year 2007 fieldwork.
42	05-34	Establish a procedure for SB/SE field office units to track Document Transmittal forms and acknowledgements of receipt of Document Transmittal forms. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. The procedures have been established, updated, and approved for IRM 5.1.2. Hard copies were shipped to all applicable employees on September 15, 2006.	Closed. We verified that IRS has established procedures that require SB/SE employees to track document transmittal forms and the acknowledgement of receipt for these forms.

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43	05-35	Require evidence of managerial review of recording, transmittal, and receipt of acknowledgments of taxpayer receipts and information. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. The procedures have been established and incorporated into the latest revision of IRM 1.4.50.	Closed. We verified that IRS has established procedures, which require SB/SE to review the recording, transmittal, and receipt of acknowledgements of the document transmittal forms.
44	05-36	Assess options to prevent the generation or disbursement of refunds associated with accounts with unresolved AUR discrepancies, including placement of a freeze or hold on all such accounts, until the AUR review has been completed. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. The procedures in IRM 3.8.45 were revised on February 1, 2007. A Hot Topic was also issued on January 25, 2007, which will add procedures to IRM 3.17.10 to check for cases that can be identified as an Automated Under Reporter (AUR) payment and research IDRS for CP2000 Indicators: TC 922, "F" Freeze Code, and campus underreporter programs.	Open. We verified that the IRM 3.8.45 was revised on February 1, 2007 and the Hot Topic was issued on January 25, 2007. However, the IRM revision and the Hot Topic issuance were subsequent to our field work. We will continue to follow up on IRS's progress on this issue during our fiscal year 2007 audit.
45	05-37	Enforce documentation requirements relating to authorizing officials charged with approving manual refunds. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. Hot Topics were issued on July 26, 2006, and August 28, 2006, reinforcing the requirements for the authorization memorandum. This is also being reviewed as part of the Monthly Security Review Checklist.	Open. During our fiscal year 2006 audit, we continued to find that the documentation requirements on memorandums, which are submitted to the manual refund units' listing officials authorized to approve manual refunds, were incomplete. We verified that IRS (1) issued the Hot Topics, and (2) included the documentation requirements for the authorization memorandum in their Checklist. However, the Hot Topics and Checklist were issued subsequent to our fieldwork. We will continue to follow up on IRS's efforts to improve the documentation requirements during our fiscal year 2007 financial audit.

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46	05-38	Enforce requirements for monitoring accounts and reviewing monitoring of accounts. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. An alert (#07021) was issued on October 24, 2006 to enforce the manual refund guideline procedures to monitor accounts to prevent duplicate refunds. IRM requirements to make certain refunds are controlled and monitored will be emphasized during yearly training (and quarterly meetings with IRS organizations that initiate manual refunds).	Open. During our fiscal year 2006 audit, we continued to find instances where the manual refund initiators did not monitor accounts to prevent duplicate refunds. We also found that the supervisors did not review the initiator's work to ensure that the monitoring of accounts was performed. We verified that IRS issued Alert No.07021; however, it was issued subsequent to our field work. We will continue to review IRS's monitoring and review efforts during our fiscal year 2007 financial audit.
47	05-39	Enforce requirements for documenting monitoring actions and supervisory review. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. An alert (#07021) was issued on October 24, 2006, to enforce the documentation requirements. IRM requirements to make certain refunds are controlled and monitored will be emphasized during yearly training. Likewise, IRS continues to leverage tools such as the Manual Refund Check Sheet and Monthly Security Reviews to ensure compliance with IRM requirements.	Open. During our fiscal year 2006 audit, we continued to find instances where the requirements for documenting monitoring actions and documenting supervisory review were not always enforced. We verified that IRS issued Alert No. 07021; however, it was issued subsequent to our field work. We will continue to monitor IRS's efforts in documenting monitoring actions and supervisory review during our fiscal year 2007 financial audit.

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48	05-40	Enforce the requirement that command code profiles be reviewed at least once annually. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Closed. Submission Processing issued a Hot Topic January 10, 2007. To verify accounting is in compliance with IRM 3.17.79.1.7, the Manual Refund Unit will include a signed and dated copy of the Command Code: RSTRK input (action performed through the use of the Integrated Data Retrieval System (IDRS)) in the file with the authorization memorandums. This documentation will be included in the fiscal year 2007 File. A conference call was held with all of the Accounting Operations on January 25, 2007 to answer any questions related to the Hot Topic. In addition, an item has been added to the Monthly Security Review Checklist that includes a review of this requirement.	Open. During our fiscal year 2006 audit, we found one case where a Certifying Officer's command code profile had not been reviewed in over 12 months. We verified that IRS issued the Hot Topic in January 2007, and modified the Monthly Security Review Checklist reminding centers of the requirement. However, the Hot Topic and modifications were issued subsequent to our fieldwork. We will continue to follow up on IRS's efforts to improve the review requirements during our fiscal year 2007 financial audit.
49	05-41	Specify in the IRM that staff members are not to review their own command code profiles. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Closed June 30, 2006. The IDRS Security Law Enforcement Manual (LEM) and IRM have been updated and implemented to reflect employees are not to review their own command code profiles. MA & SS Chief also signed a memorandum advising business units of the requirement to not have reviewing employees in the same IDRS unit as the employees they review. In addition, MA & SS worked with business units to set up separate IDRS units so that unit security representatives and managers can ensure separation of reviewer from reviewed. This latter activity is being tracked to ensure the required separation is put into effect.	Open. During our fiscal year 2006 audit, we found that the IRM wording to specify that staff members do not review their own command code profiles had not been updated. We will continue to monitor IRS's efforts in preventing staff members from reviewing their own command code profiles during our fiscal year 2007 audit.

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50	05-42	Specify in the IRM how to properly verify interest and penalties for accounts with liens with manually calculated interest or penalties. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R , Apr. 27, 2005)	Closed. ALS receives a master file data extract listing modules where liabilities have been fully paid. The data extract that is matched against information in the ALS system automatically releases liens when there is a match, including restricted interest and penalty modules. After a review of 300 satisfied modules, IRS identified five cases with additional restricted interest or penalty. The remaining amounts due after computation were for very small amounts, less than \$10. On the basis of those reviews, IRS determined these cases should receive systemic releases.	Closed. IRS reprogrammed its ALS to automatically release liens once the taxpayer's account was fully paid, even if it contains a manual interest indicator. Previously, IRS's IRM required it to review accounts containing a manual interest or penalty indicator, to determine whether the manually recorded interest and penalty amounts were correct and whether it should assess the taxpayer any additional interest or penalty before releasing the lien. IRS has decided not to hold up the lien release on such accounts for a review and has changed its computer programming to automatically release the lien once the account balance reaches zero. We obtained and reviewed a computer extract from February 2007 showing that accounts containing manual interest or penalty are no longer held up from automated lien release.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
51	06-01	Require that Refund Inquiry Unit managers or supervisors document their review of all forms used to record and transmit returned refund checks prior to sending them for final processing. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Open. Form 3210 is the only form used by W&I accounts management (AM). IRM 21.4.3 Returned Refunds/Releases contains procedures for transmitting returned refund checks to the Regional Finance Center utilizing Form 3210. Although the procedures do not require the manager to initial the Form 3210, procedures are in place in the Manager's IRM to do periodic reviews. AM will explore an effective plan to address this control during fiscal year 2007. It has been determined that adding reminders to the AM Program Letter will not produce the desired result. Procedures for consistent review of Forms 3210 have been drafted for addition to IRM 1.4.16. This will enhance guidelines on periodic reviews. The draft procedures are pending approval through the IRM clearance process.	Open. During our fiscal year 2006 audit, we identified instances at two of four SCCs we visited in which Refund Inquiry Unit managers or supervisors did not document their review of all forms used to transmit returned refund checks prior to sending them for final processing. We will continue to evaluate IRS's corrective actions during our fiscal year 2007 audit.

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52	06-02	Enforce compliance with existing requirements that all IRS units transmitting taxpayer receipts and information from one IRS facility to another, including SCCs, TACs, and units within LMSB and TE/GE, establish a system to track acknowledged copies of document transmittals. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Open. W&I Accounts Management has drafted procedures for the consistent review of receipt transmittals (Form 3210) for inclusion in IRM 1.4.16. Reviews will enforce existing requirements. Newly drafted procedures have been written to provide additional time frames and documentation requirements for Accounts Management employees sending transmittal forms. The draft procedures are pending approval. W&I Field Assistance approved SERP updates on July 14, 2006, to establish a process to monitor acknowledgements of transmittal forms received from the service centers. IRMs 21.3.4.7 and 1.4.11.19.1 were revised to provide procedures for requiring TACs to follow-up with Submission Processing Centers (SPC) when acknowledgements are not received within 10 days. The acknowledgement copies of transmittals received from SPCs must be documented with the date received in the TAC. When missing acknowledgement copies are identified, the TAC employee must document follow-up actions to resolve the missing acknowledgements. The documentation must either be recorded on or attached to the group copy of the transmittals. IRM 1.4.11.19.5 was revised to require TAC group managers to prepare weekly payment processing and reconciliation reviews and to provide documentation feedback to employees. LMSB has issued procedures to the field on the responsibilities for using receipt transmittals. TE/GE addressed this issue during the fiscal year 2006 Annual Assurance Review by responding to question 6.2, "Checks received from taxpayers are sent to the Service Center within one business day via Form 3210 (Document Transmittal), and the Service Center is contacted if the acknowledgement copy of Form 3210 is not received from the Service Center within 10 days." All managers responded "yes."	Open. During our fiscal year 2006 audit, we identified multiple instances at two TACs (and at one SCC we visited) where IRS employees did not follow existing requirements when transmitting taxpayer receipts and information. In addition, during our subsequent review of TAC corrective actions in this area, we found that the reviews required by the TAC managers were not always performed as intended. We will continue to evaluate IRS's corrective actions during our fiscal year 2007 audit.

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53	06-03	Provide instructions to document the follow-up procedures performed in those cases where transmittals have not been timely acknowledged. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R, May 12, 2006)	Open. W&I Accounts Management has drafted procedures for the consistent review of receipt transmittals (Form 3210) for inclusion in IRM 1.4.16. Reviews will enforce existing requirements. Newly drafted procedures have been written to provide additional time frames and documentation requirements for Accounts Management employees sending transmittal forms. The draft procedures are pending approval. W&I Field Assistance approved SERP updates on July 14, 2006, to establish a process to monitor acknowledgements of transmittal forms received from the service centers. IRMs 21.3.4.7 and 1.4.11.19.1 were revised to provide procedures for requiring TACs to follow-up SPCs when acknowledgements are not received within 10 days. The acknowledgement copies of transmittals received from SPCs must be documented with the date received in the TAC. When missing acknowledgement copies are identified, the TAC employee must document follow-up actions to resolve the missing acknowledgements. The documentation must either be recorded on or attached to the group copy of the transmittals. IRM 1.4.11.19.5 was revised to require TAC group managers to prepare weekly payment processing and reconciliation reviews and to provide documentation feedback to employees. LMSB has issued procedures to the field on the responsibilities for using receipt transmittals. TE/GE addressed this issue during the fiscal year 2006 Annual Assurance Review by responding to question 6.2, "Checks received from taxpayers are sent to the Service Center within one business day via Form 3210 (Document Transmittal), and the Service Center is contacted if the acknowledgement copy of Form 3210 is not received from the Service Center within 10 days." All managers responded "yes."	Open. This recommendation affects TAC, LMSB, and TE/GE business units. We were only able to verify that for TACs, IRS has issued guidance for employees to document the follow-up procedures in those cases where transmittals have not been timely acknowledged. However, during our subsequent review of TAC corrective actions in this area, we found that the reviews required in the July 2006 IRM update were not always performed as intended. We will continue to evaluate IRS's corrective actions in our fiscal year 2007 audit.

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54	06-04	Require that managers or supervisors document their reviews of document transmittals to ensure that taxpayer receipts and/or taxpayer information mailed between IRS locations are tracked according to guidelines. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R, May 12, 2006)	Open. W&I Accounts Management has drafted procedures for the consistent review of receipt transmittals (Form 3210) for inclusion in IRM 1.4.16. Reviews will enforce existing requirements. Newly drafted procedures have been written to provide additional time frames and documentation requirements for Accounts Management employees sending transmittal forms. The draft procedures are pending approval. W&I Field Assistance approved SERP updates on July 14, 2006, to establish a process to monitor acknowledgement of transmittal forms received from the service centers. IRMs 21.3.4.7 and 1.4.11.19.1 were revised to provide procedures for requiring TACs to follow-up with SPCs when acknowledgements are not received within 10 days. The acknowledgement copies of transmittals received from SPCs must be documented with the date received in the TAC. When missing acknowledgement copies are identified, the TAC employee must document follow-up actions to resolve the missing acknowledgements. The documentation must either be recorded on or attached to the group copy of the transmittals. IRM 1.4.11.19.5 was revised to require TAC group managers to prepare weekly payment processing and reconciliation reviews and to provide documentation feedback to employees. LMSB has issued procedures to the field on the responsibilities for using receipt transmittals. TE/GE addressed this issue during the fiscal year 2006 Annual Assurance Review by responding to question 6.2, "Checks received from taxpayers are sent to the Service Center within one business day via Form 3210 (Document Transmittal), and the Service Center is contacted if the acknowledgement copy of Form 3210 is not received from the Service Center within 10 days." All managers responded "yes."	Open. This recommendation affects SCC, TAC, LMSB, and TE/GE business units. During our fiscal year 2006 audit, we continued to find instances where managers/designees did not document their reviews of document transmittals to ensure that taxpayer receipts and/or taxpayer information mailed between IRS locations were tracked according to guidelines. In addition, during our subsequent review of TAC corrective actions, we found that the reviews required in the July 2006 IRM update were not always performed as intended. We will continue to evaluate IRS's corrective actions during our fiscal year 2007audit.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
55	06-05	Equip all TACs with adequate physical security controls to deter and prevent unauthorized access to restricted areas or office space occupied by other IRS units, including those TACs that are not scheduled to be reconfigured to the "new TAC" model in the near future. This includes appropriately separating customer service waiting areas from restricted areas in the near future by physical barriers such as locked doors marked with signs barring entrance by unescorted customers. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Open. FA surveyed each area office and provided this information to AWSS and MA & SS.	Open. During our fiscal year 2006 audit, IRS continued to develop guidelines to address unauthorized access to restricted areas. These corrective actions were not complete at the conclusion of our fiscal year 2006 audit. We will continue to evaluate IRS's corrective actions during our fiscal year 2007 audit.
56	06-06	Connect duress alarms to a central monitoring station or local police department or institute appropriate compensating controls when these alarm systems are not operable or in place. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Closed. MA & SS has coordinated with AWSS/Real Estate and Facilities Management (REFM) and W&I to ensure duress alarms for 387 (97 percent) of the 400 TAC offices are currently connected to a central monitoring station and will work in partnership to address reported deficiencies. MA & SS and FA have determined that testing of duress alarms will be not less than once each calendar quarter (3 months) and results will be reviewed and documented. Plans to connect the remaining 13 offices are in progress and are being tracked until complete (status report provided as supporting documentation). Each of these 13 offices are currently equipped with duress alarms that annunciate locally and compensating control procedures are in place to ensure 911 is contacted for emergency assistance. IRM 1.16.12 has been revised to set forth alarm testing procedures and to ensure TAC personnel are aware to contact 911 when alarms are not operable or in place.	Closed. During fiscal year 2006, we verified that IRS revised its policy, which outlines duress alarm testing requirements at TACs as well as guidelines for employees to follow when working with duress alarms, particularly at TACs with nonoperable duress alarms.

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57	06-07	Document supervisory visits by offsite managers to TACS not having a manager permanently on-site. This documentation should be signed by the manager and should (1) record the time and date of the visit, (2) identify the manager performing the visit, (3) indicate the tasks performed during the visit, (4) note any problems identified, and (5) describe corrective actions planned. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Closed. The checklist for managers to use to document visits to outlying TACs was included as an exhibit in the April 27, 2006 update of IRM 1.4.11.6.2.	Open. We verified during our fiscal year 2006 audit that the IRM had been updated to include a method for managers to document their visits to remote TACs. However, during our subsequent review of the reports prepared by TAC managers, we were unable to determine the scope and content of what was observed or accomplished during the visit. We will continue to evaluate IRS's implementation of its corrective actions during our fiscal year 2007audit.

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58	06-08	Enforce the requirement that all security or other responsible personnel at SCCs and lockbox banks record all instances involving the activation of intrusion alarms regardless of the circumstances that may have caused the activation. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R, May 12, 2006)	Closed. In January 2006, LSG 2.2.3.1.5 (6) was revised to add the requirement that the banks maintain a logbook of incident reports and any applicable supporting documentation, noting corrective follow-up actions taken on each incident. The logbook must be maintained in sequential date order. This was reinforced in the 2007 LSG. It states "The bank must maintain a logbook of incident reports and any applicable supporting documentation." Corrective follow-up actions must be documented and included with the original incident report. The logbook must be maintained in sequential date order. A review of the incident reports and associated logbooks has shown that although not specifically directed at intrusion alarms, the logbook of incident reports is also used to record all alarm events. LSG section 2.2.2.14 Intrusion Detection System (IDS), paragraph (7) will be revised to add "A record of all instances involving the activation of intrusion alarms, regardless of the circumstances that may have caused the activation, must be maintained in the Daily Activity Report/Log or other incident logbook." At the SCCs, field security analysts have been advised to reiterate to the campus guard force that all activation of intrusion alarms whether during tests (by staff or oversight auditors), inadvertently, or by actual security breach violations must be recorded/documented. Existing unannounced alarm testing procedures and the associated Alarm Test Report form have been modified to incorporate a review of the guard console timeline log to test guard adherence to this requirement. Recording of all alarm activations has been added to the Physical Security Audit Management Checklist, reviewed by field management.	Open. During our fiscal year 2006 audit, we identified instances at two of four lockbox banks we visited in which the activation of intrusion alarms were not recorded by security guards. We will evaluate IRS's planned corrective actions during our fiscal year 2007 audit.

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59	06-09	Reemphasize the need for the security guards at all TACs to ensure that key posts of duty, such as entrances to facilities, are not left unattended. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Open. W&I has issued a memorandum to MA & SS to address this issue.	Open. IRS's actions to address this issue are currently in process. We will evaluate IRS's corrective actions in our fiscal year 2007 audit.
60	06-10	Revise its lockbox bank's security review checklist to ensure that it encompasses reviewing security incident reports to validate whether security personnel are providing corrective actions related to the incidents cited. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Closed. The Security Review Checklist was updated June 5, 2006, and all follow-up actions have been completed by the Lockbox Security Team. SP worked with IRS Mission Assurance and FMS to ensure the physical security review checklist was updated to include reviews of the security incident reports and to validate that security personnel are providing corrective actions related to the incidents that were cited.	Closed. We verified that the lockbox bank physical security DCI had been updated to include a review to ensure that security incidents are documented.
61	06-11	Refine the scope and nature of its periodic reviews of candling processes at SCCs to ensure they (1) encompass tests of whether envelopes are properly candled through observation of candling in process and inquiry of employees who perform initial and final candling and (2) document the nature and scope of the test and observation results. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Closed. The Security Review Checklist has been revised to document, through observation, the effectiveness of the initial and final candling process. Employee inquiry continues to be a part of the Monthly Campus and National Office Security Reviews.	Open. We verified that IRS revised its Security Review Checklist to document, through observation, the effectiveness of the initial and final candling process. IRS states that employee inquiry continues to be part of the monthly campus and national office security reviews. However, IRS did not provide documentation demonstrating (1) that inquiries were made of employees who perform initial and final candling, (e.g., evaluate employees awareness of candling procedures) and (2) the nature and scope of the tests conducted (e.g., number of employees and a brief description of the extent of the candling observation). We will continue to monitor IRS's corrective actions during our fiscal year 2007 audit.

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62	06-12	Enforce its existing policies and procedures at lockbox banks to ensure that all remittances of \$50,000 or more are processed immediately and deposited at the first available opportunity. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R, May 12, 2006)	Closed. On April 13, 2006, Lockbox Electronic Bulletin (LEB) 200613 (Remittances of \$50,000 or more) was distributed throughout the Lockbox Network. The LEB updated LPG 3.2(4) and LPG 3.2.7.1(1) to state the following: "If 50,000 or more is discovered in any type of work, it should be expedited and deposited on the first available deposit." In addition, lockbox management must ensure that remittances of \$50,000 or more are not left unattended, including at disruptive times such as shift changes, breaks, meetings, etc. These remittances must be collected and then batched for expedited processing. Additionally, management will continue to provide training reminders and actively monitor the work in process for compliance with high-dollar procedures.	Closed. We verified that the LPG requires remittances of \$50,000 or greater are not to be left unattended, including at disruptive times such as shift changes, breaks, meetings, and are to be expedited and deposited on the first available deposit. Also, we verified that a review checkpoint was added to the Processing Internal Controls DCI for lockbox banks to ensure that remittances of \$50,000 or greater are processed expeditiously and are not to be left unattended, including at disruptive times such as shift changes, breaks, and meetings. During our fiscal year 2006 audit, we found no instances of remittances of \$50,000 or more that were not processed immediately or deposited at the first available opportunity.
63	06-13	Refine the scope and nature of its periodic reviews of lockbox banks to include high dollar remittances to better monitor adherence to the requirement that they are processed immediately and deposited at the first available opportunity. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R, May 12, 2006)	Closed. A review checkpoint was added to the Processing Internal Controls DCI, which was implemented during the April 2006 on-site review performed by the lockbox field coordinators (LFC). The review requires the LFC to ensure that there is an internal control in place to expedite remittances of \$50,000 and over; and that lockbox management is ensuring these remittances are collected from all areas at the end of each shift and prior to breaks, then batched and sent for processing.	Closed. We verified that a review checkpoint was added to the Processing Internal Controls DCI for lockbox banks to ensure that remittances of \$50,000 or greater are processed expeditiously and are not to be left unattended, including at disruptive times such as shift changes, breaks, and meetings. During our fiscal year 2006 audit, we found no instances of remittances of \$50,000 or more that were not processed immediately or deposited at the first available opportunity.

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64	06-14	Refine the scope and nature of its periodic security reviews to encompass (1) testing the effectiveness of controls intended to ensure that only individuals with proper credentials are permitted access to SCCs and lockbox banks, and (2) reviewing the integrity of perimeter security at SCCs. (short-term)	<i>Management Report: Improvements needed in IRS's Internal Controls</i> (GAO-06-543R, May 12, 2006)	Closed: The physical security of submission processing centers is a key priority for IRS. IRS has many physical security controls protecting the perimeter of facilities and access to buildings. Protections include fencing, CCTV, perimeter entrances protected with electronic gates, and security guards. Building access is protected with electronic access controls (key cards), portals, and security guards. We continually monitor the physical security of our submission processing facilities and conduct various reviews to continually assess our security posture. Our continuous monitoring includes (1) comprehensive risk assessments conducted every 2 years, (2) physical security compliance reviews conducted every 2 years, and (3) an Audit Management Checklist process that is conducted quarterly. The quarterly Audit Management Checklist process includes specific evaluations of the effectiveness of controls intended to ensure that only individuals with proper credentials are permitted access to submission processing centers and the review of the integrity of perimeter security. Additionally, for lockbox banks, on January 1, 2007, IRS revised LSG, Section 2.2.3.1(6)k, to restrict access of all delivery personnel. The IRS Lockbox Security Review Team observed the Lockbox Site's process of delivery personnel while on site to ensure compliance with the LSG requirement. In addition, section 2.2.2.13.1 (CCTV Cameras) (2)g of the LSG was revised to add that cameras must capture images of all persons entering and exiting perimeter doors and other critical ingress/egress points to include but not limited to the computer room and closets containing main utility feeds.	Open. We verified that (1) the Audit Management Checklist verifies that guards check photo identification of all visitors before permitting access to SCCs and ensures that CCTV surveillance systems at SCCs provide complete and unobstructed exterior coverage of the entire fenceline and perimeter of the facility and (2) the LSG was revised to restrict access of all delivery personnel at lockbox banks. However, during our fiscal year 2006 audit, we continued to find weaknesses in controls over access to the facility and/or surrounding perimeter at three SCCs and one lockbox bank we visited. We found instances of gaps in security fences at two SCCs, overgrown shrubbery that obstructed the view of security personnel at one SCC, courier company personnel delivering the lockbox accounting package that were not always listed on the hard copy access list at the entry gate at one SCC, and a courier face and/or badge that was not recognizable through a camera prior to granting courier access to the loading dock area at one lockbox bank. The corrective actions cited by IRS were subsequent to our fiscal year 2006 audit. We will evaluate the effectiveness of these actions during our fiscal year 2007 audit.

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65	06-15	Revise the physical security procedures in the Internal Revenue Manual (IRM) to require that all SCCs and any respective annex facilities processing taxpayer receipts and/or information perform and document monthly tests of the facility's intrusion detection alarms. At a minimum, these procedures should (1) outline the type of test to be conducted, (2) include criteria for assessing whether the controls used to respond to the alarm were effective, and (3) require that a logbook be maintained to document the test dates, results, and response information. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-06-543R, May 12, 2006)	Open. MA & SS and Agency-Wide Shared Services (AWSS) will update the IRMs and LPG related to the SCCs alarm testing procedures to include a description of the types of tests to be conducted, criteria for assessing controls, and the logging requirements by August 2007.	Open. We will continue to evaluate IRS's corrective actions during our fiscal year 2007 audit.
66	06-16	Amend its policy to require that a completed form 13094 with a positive recommendation be provided for every juvenile hired to any position that will allow access to taxpayer receipts and/or taxpayer information. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-06-543R, May 12, 2006)	Closed. Policy was amended to require that all juveniles being considered for employment with IRS complete Form 13094 (Recommendation for Juvenile Employment with IRS) with a positive recommendation. This requirement is mandatory for employment with IRS.	Closed. During our fiscal year 2006 audit, we verified that IRS amended its juvenile hiring policy to ensure that only those juveniles receiving positive recommendations will be permitted access to taxpayer receipt and information.
67	06-17	Require IRS personnel to verify the information on the form 13094 by contacting the reference directly. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-06-543R, May 12, 2006)	Closed. Policy was amended to establish procedures that require IRS personnel to verify all completed forms with a positive recommendation by contacting the reference directly.	Closed. During our fiscal year 2006 audit, we verified that IRS amended its juvenile hiring policy to ensure that IRS personnel verify the information provided on Form 13094 via direct contact with the reference.

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68	06-18	Revise the form 13094 to require the reference to describe his/her relationship with the juvenile including extent of first-hand contact, to allow IRS to review the forms and assess whether the referencer has sufficient basis to recommend that juvenile to a position of trust. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Closed. Form 13094 was modified to include two additional boxes for the reference to include their relationship to the juvenile and the number of years they have known the juvenile. Form 13094 has a revision date of August 20, 2006 and is available on the IRS' publication Web site.	Closed. During our fiscal year 2006 audit, we verified that IRS amended its juvenile hiring policy to require that the references indicate how well they know the potential juvenile hire. In addition, Form 13094 was also revised to request the references provide this information via a check-box system.
69	06-19	Establish procedures for hiring juveniles who do not have a current teacher, principal, counselor, employer or former employer, and clarify that IRS's current policies and procedures should not be interpreted to mean that such juveniles should be allowed access to taxpayer receipts and information without a form 13094 or its equivalent. These procedures could include a list of acceptable alternatives that may serve as references for juveniles who do not have a current teacher, principal or guidance counselor. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Closed. Form 13094 was modified with the following sentences added, "Form should be completed by a person who has personal knowledge of the applicant's character and trustworthiness. If the applicant is attending school or has graduated, this form must be completed and signed by the current or former school official (i.e., principal, guidance counselor, or teacher). If the applicant is not in school and is currently employed or unemployed, the form must be completed and signed by either a current or former employer." Form 13094 has a revision date of August 20, 2006 and is available on the IRS' publication Web site.	Closed. During our fiscal year 2006 audit, we verified that IRS amended its juvenile hiring policy to provide accepted alternative references if the juvenile does not have a current teacher, principal, or guidance counselor. The revised Form 13094 has also been revised to include this information.

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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
70	06-20	To assure proper accounting treatment of expense and P&E transactions and reliable financial reporting, enforce existing property and equipment capitalization policy to ensure that it is properly implemented to fully achieve management's objectives, including recognizing assets when its capitalization criteria is met and recognizing expenses when it is not. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Closed. IRS implemented a dollar threshold for the ongoing monthly review of P&E transactions beginning in March 2006. In addition, the CFO and Chief, Agency-Wide Shared Services, jointly issued a memorandum to all executives entitled, "Internal Transaction Control and Accuracy Improvement," emphasizing responsibility for accurate transaction coding, in April 2006. Also, the CFO and procurement offices jointly completed a review of material code descriptions and implemented appropriate changes in the requisition tracking system and IFS; implemented a process to review the material group assigned to transactions at the point of requisition to drive the transaction coding as either P&E or expense; and initiated a feedback process regarding material group coding errors found after receipt and acceptance.	Closed. On the basis of our fiscal year 2006 testing of P&E and nonpayroll expenses, we confirm that IRS has improved the accuracy and reliability of its P&E records by enhancing accounting code definitions in its new financial management system to make it easier for users to select the proper accounting codes for recording transactions, improving coordination among units involved in processing P&E activity, and streamlining its analysis of P&E transactions most susceptible to misclassification.
71	06-21	Generate aging reports when an asset remains in pending disposal status for longer than a specified period of time. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Closed. IRS has initiated a reengineering effort focused on the entire asset retirement and disposal process. As such, reports are currently available to monitor aging transactions during the disposal life cycle. Additionally, procedures are in place that require reviews of aging reports for the timely recording of disposal transactions. Substantial software modifications were designed to improve the recording of information by replacing manual data entry methods by using electronic forms, signatures, and processes. In August 2006, these modifications and review procedures were implemented to streamline the recording of asset disposal activity as required by IRS policy.	Open. During fiscal year 2006, IRS reengineered the P&E asset retirement and disposal process. The new process was intended to generate exception reports that would enable management to monitor the aging of transactions during the disposal process. Since this reengineering was still in process during our fiscal year 2006 P&E testing, we will test the new process during our fiscal year 2007audit.

**Appendix I: Status of GAO Recommendations
from IRS Financial Audits and Related
Management Reports**

Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
72	06-22	Direct Facilities Management Branch managers to research and resolve the aging reports. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-06-543R , May 12, 2006)	Closed. AWSS and the Chief Information Officer property managers reengineered the entire asset retirement and disposal process to mitigate issues raised in GAO's fiscal year 2005 Financial Statement Audit. As such, reports are regularly available on a weekly basis for management to monitor the status of aging transaction dates until the disposal process is complete. Also, review procedures were streamlined to ensure the timely recording of disposal transactions. In August 2006, reengineered process modifications and review procedures were implemented and guidance for conducting reviews was issued.	Open. During fiscal year 2006, IRS reengineered the P&E asset retirement and disposal process. The new process was intended to generate exception reports that would enable management to monitor the aging of transactions during the disposal process. Since this re-engineering was still in process during our fiscal year 2006 P&E testing, we will test the new process during our fiscal year 2007 audit.
73	07-01	Enforce the existing policy requiring that all lockbox banks encrypt backup media containing federal taxpayer information. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
74	07-02	Ensure that lockbox banks store backup media containing federal taxpayer information at an off-site location as required by the 2006 LSG. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
75	07-03	Revise instructions for the annual reviews of lockbox banks to encompass routine monitoring of backup media containing personally identifiable information to ensure that this information is (1) encrypted prior to transmission and (2) stored in an appropriate off-site location. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.

**Appendix I: Status of GAO Recommendations
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Management Reports**

Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
76	07-04	Develop and implement appropriate corrective actions for any gaps in closed circuit TV (CCTV) camera coverage that do not provide an unobstructed view of the entire exterior of the SCC's perimeter, such as adding or repositioning existing CCTV cameras or removing obstructions. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
77	07-05	Revise instructions for quarterly physical security reviews to require analysts to (1) document any issues identified as well as planned implementation dates of corrective actions to be taken and (2) track the status of corrective actions identified during the quarterly assessments to ensure they are promptly implemented. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
78	07-06	Revise procedures contained in the Manual Refund Desk Reference to reflect the IRM requirements for manual refund initiators to (1) monitor the manual refund accounts in order to prevent duplicate refunds, and (2) document their monitoring actions. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.

**Appendix I: Status of GAO Recommendations
from IRS Financial Audits and Related
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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
79	07-07	Provide to all IRS units responsible for processing manual refunds the same and most current version of the Manual Refund Desk Reference. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
80	07-08	Require that managers or supervisors provide the manual refund initiators in their units with training on the most current requirements to help ensure that they fulfill their responsibilities to monitor manual refunds and document their monitoring actions to prevent the issuance of duplicate refunds. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
81	07-09	Enhance its computer program to check for outstanding tax liabilities associated with both the primary and secondary Social Security Numbers shown on a joint tax return and apply credits to those balances before issuing any refund. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
82	07-10	Instruct Revenue Officers making the TFRP assessments to research whether the responsible officers are filing jointly with their spouses and to place a refund freeze on the joint account until the computer programming change can be completed. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.

**Appendix I: Status of GAO Recommendations
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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
83	07-11	Correct the penalty calculation programs in the master file so that penalties are calculated in accordance with the applicable IRC and implementing IRM guidance. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
84	07-12	Research each of the taxpayer accounts that may have been affected by the programming errors to determine whether they contain overassessed penalties and correct the accounts as needed. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
85	07-13	Establish procedures and specify in the IRM that at the time of receipt, employees recording taxpayer payments should (1) determine if the payment is more than sufficient to cover the tax liability of the tax period specified on the payment or earliest outstanding tax period, (2) perform additional research to resolve any outstanding issues on the account, (3) determine whether the taxpayer has outstanding balances in other tax periods, and (4) apply available credits to satisfy the outstanding balances in other tax periods. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.

**Appendix I: Status of GAO Recommendations
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Management Reports**

Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
86	07-14	Establish procedures and specify in the IRM that employees review taxpayer accounts with freeze codes that contain credits weekly to (1) research and resolve any outstanding issues on the account, (2) determine whether the taxpayer has outstanding balances in other tax periods, and (3) apply available credits to satisfy the outstanding balances in other tax periods. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
87	07-15	Issue a memorandum to employees in the Centralized Insolvency Office reiterating the IRM requirement to timely record bankruptcy discharge information onto taxpayer accounts in the master file or to manually release the liens in ALS. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
88	07-16	Issue a memorandum to employees in the Centralized Lien Processing Unit reiterating the IRM requirement to date stamp and maintain the billing support voucher as evidence of timely processing by IRS. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
89	07-17	Monitor installment agreement user fee activity on a regular basis. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.

**Appendix I: Status of GAO Recommendations
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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
90	07-18	Adjust errors in recorded installment agreement user fees as necessary to correctly reflect the user fees IRS earned and collected from taxpayers. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
91	07-19	Establish sufficient review procedures to help ensure that adjustments to installment agreement user fees collected from taxpayers are accurately and timely recorded. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
92	07-20	Establish and maintain sufficient secured storage space to properly secure and safeguard its property and equipment inventory, including in-stock inventories assets from incoming shipments, and assets that are in the process of being excessed and/or shipped out. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
93	07-21	Develop and implement procedures to require that separate individuals place orders with vendors and perform receipt and acceptance functions when the orders are delivered.(short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-07-689R , May 11, 2007)	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.

**Appendix I: Status of GAO Recommendations
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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
94	07-22	Document the results of internal control tests conducted in a manner sufficiently clear and complete to explain how control procedures were tested, what results were achieved, and how conclusions were derived from those results, without reliance on supplementary oral explanation. (short-term)	<i>Management Report: IRS's First Year Implementation of the Requirements of the Office of Management and Budget's (OMB) Revised Circular No. A-123 (GAO-07-692R, May 18, 2007)</i>	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
95	07-23	Clearly document how it considered existing reviews and audits in determining the nature, scope, and timing of procedures it planned to conduct under its A-123 process. (short-term)	<i>Management Report: IRS's First Year Implementation of the Requirements of the Office of Management and Budget's (OMB) Revised Circular No. A-123 (GAO-07-692R, May 18, 2007)</i>	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
96	07-24	To the extent that it intends to use the information security work conducted under Federal Information Security Management Act of 2002 (FISMA) to meet related A-123 requirements, identify the areas where the work conducted under FISMA does not meet the requirements of OMB Circular No. A-123 and, considering the findings and recommendations of our work on IRS's information security, expand FISMA procedures or perform additional procedures as part of the A-123 reviews to augment FISMA work. (short-term)	<i>Management Report: IRS's First Year Implementation of the Requirements of the Office of Management and Budget's (OMB) Revised Circular No. A-123 (GAO-07-692R, May 18, 2007)</i>	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.

**Appendix I: Status of GAO Recommendations
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Count	ID. No.	Recommendation	Source report	Status per IRS	Status per GAO
97	07-25	Revise test plans to include appropriate consideration of the design of internal controls in addition to implementation of controls over individual transactions. (short-term)	<i>Management Report: IRS's First Year Implementation of the Requirements of the Office of Management and Budget's (OMB) Revised Circular No. A-123 (GAO-07-692R, May 18, 2007)</i>	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
98	07-26	Work with Treasury to identify laws and regulations that are significant to financial reporting, test controls over compliance with those laws and regulations, and evaluate and report on the results of such control reviews. (short-term)	<i>Management Report: IRS's First Year Implementation of the Requirements of the Office of Management and Budget's (OMB) Revised Circular No. A-123 (GAO-07-692R, May 18, 2007)</i>	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
99	07-27	Begin devising appropriate A-123 follow-up procedures for the last three months of the fiscal year to be implemented once the material weaknesses identified through the annual financial statement audits have been resolved. (short-term)	<i>Management Report: IRS's First Year Implementation of the Requirements of the Office of Management and Budget's (OMB) Revised Circular No. A-123 (GAO-07-692R, May 18, 2007)</i>	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.
100	07-28	Provide A-123 review staff appropriate training, such as that available for financial auditors, to enhance their skills in workpaper documentation, identification and testing of internal controls, and evaluation and documentation of results. (short-term)	<i>Management Report: IRS's First Year Implementation of the Requirements of the Office of Management and Budget's (OMB) Revised Circular No. A-123 (GAO-07-692R, May 18, 2007)</i>	Because this is a recent recommendation, GAO did not obtain information on IRS's status in addressing it.	Open: This is a recent recommendation. We will review IRS's corrective actions during future audits.

Source: IRS updates detailing its actions to address GAO's recommendations and GAO's analysis of IRS's actions.

Appendix II: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

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

May 18, 2007

Mr. Steven J. Sebastian, Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Sebastian:

I am writing in response to the draft Government Accountability Office (GAO) report titled "Internal Revenue Service: Status of GAO Financial Audit and Related Financial Management Report Recommendations" (GAO-07-629).

We are pleased that you acknowledged our progress in addressing our financial management challenges and agreed to close 25 of the 72 open financial management recommendations from last year's report. You added 28 new recommendations bringing the total to 75 recommendations currently open.

I appreciate your continued support and commitment to work with the IRS to ensure that our corrective actions appropriately address the issues identified in your recommendations. If you have any questions, please contact Mary E. Davis, Associate Chief Financial Officer for Corporate Planning and Internal Control, at (202) 622-2955.

Sincerely,

A handwritten signature in black ink that reads "Linda E. Stiff".

Linda E. Stiff
Deputy Commissioner for
Operations Support

Appendix III: Staff Acknowledgments

Acknowledgments

The following individuals made major contributions to this report: Gloria Cano, Stephanie Chen, William J. Cordrey, Nina Crocker, John Davis, Charles Ego, Charles Fox, John Gates, Ted Hu, Jerrod O'Nelio, John Sawyer, Angel Sharma, Peggy Smith, Cynthia Teddleton, LaDonna Towler, Truc Tuck, and Gary Wiggins.

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