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GAO
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Highlights

Highlights of GAO-10-176, a report to the Secretary of the Treasury

FINANCIAL AUDIT

IRS's Fiscal Years 2009 and 2008 Financial Statements

Why GAO Did This Study

Because of the significance of Internal Revenue Service (IRS) collections to overall federal receipts and, in turn, to the consolidated financial statements of the U.S. government, which GAO is required to audit, and Congress's interest in financial management at IRS, GAO audits IRS's financial statements annually to determine whether (1) the financial statements are fairly stated, and (2) IRS management maintained effective internal control over financial reporting. GAO also tests IRS's compliance with selected provisions of significant laws and regulations and its financial systems' compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA).

What GAO Recommends

Based on prior audits, GAO made numerous recommendations to IRS to address the internal control and compliance issues that continued to persist during fiscal year 2009. GAO will continue to monitor IRS's progress in implementing the 136 recommendations that remain open as of the date of this report, of which 74 relate to the material weakness in information security.

IRS stated that it is dedicated to improving financial management and cited several recent achievements. It noted that it has a solid management team in place to address remaining financial management challenges and is committed to improving information security as an ongoing priority.

View GAO-10-176 or key components.
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What GAO Found

In GAO's opinion, IRS's fiscal years 2009 and 2008 financial statements are fairly presented in all material respects. However, serious internal control and financial management systems deficiencies continued to make it necessary for IRS to use resource-intensive compensating processes to prepare its balance sheet. Because of these and other deficiencies, IRS did not, in GAO's opinion, maintain effective internal control over financial reporting as of September 30, 2009, and thus did not provide reasonable assurance that losses and misstatements material to the financial statements would be prevented, or detected and corrected timely.

During fiscal year 2009, IRS continued to make significant strides in addressing its internal control deficiencies. Specifically, IRS sufficiently addressed several issues constituting its material weakness over financial reporting and its significant deficiency over tax revenue collection and refund issuance such that we do not consider the remaining unresolved issues in those areas to constitute reportable deficiencies in internal control. However, continued management commitment and sustained efforts are necessary to build on the progress made to date and to fully address IRS's remaining internal control, compliance, and system deficiencies. These remaining deficiencies pertain to IRS's (1) material weaknesses in internal control over unpaid tax assessments and over information security, (2) noncompliance with the law concerning the timely release of tax liens, and (3) financial management systems' nonconformance with FFMIA requirements.

The serious challenges IRS faces as a result of these remaining deficiencies adversely affect IRS's ability to (1) produce reliable financial statements without significant compensating procedures and (2) obtain current, complete, and accurate information it needs to make well-informed decisions. As IRS continues to progress toward increasingly automated financial management processes, the continued material weakness in internal control over information security that jeopardizes the reliability of the financial information IRS processes could have serious implications for our future ability to determine whether IRS's financial statements are fairly stated. This weakness also continues to significantly increase the risk that sensitive taxpayer information may be compromised.

During fiscal year 2009, IRS also continued to face significant financial management challenges in developing and instutionalizing the use of financial management information to assist it in making operational decisions and measuring the effectiveness of its programs. IRS has not fully integrated the use of cost- and revenue-based performance information into its routine management and decision-making processes or in its externally reported performance metrics.