



441 G St. N.W.
Washington, DC 20548

May 18, 2016

The Honorable John Koskinen
Commissioner of Internal Revenue

Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting

Dear Mr. Koskinen:

On November 12, 2015, we issued our report on our audit of the Internal Revenue Service's (IRS) fiscal years 2015 and 2014 financial statements, which included our opinion that IRS's internal control over financial reporting was not effective as of September 30, 2015.¹ The purpose of this report is to present those internal control deficiencies identified during our fiscal year 2015 audit for which we do not already have any recommendations outstanding.² The control deficiencies presented in this report are not considered to be material weaknesses or significant deficiencies;³ nonetheless, they warrant IRS management's attention. This report provides recommendations to address these internal control deficiencies and also presents the status, as of September 30, 2015, of IRS's corrective actions taken to address our recommendations detailed in our previous management reports that remained open at the beginning of our fiscal year 2015 audit (see enc. I).⁴ This report is intended for the use of IRS management.

Results in Brief

During our audit of IRS's fiscal years 2015 and 2014 financial statements, we identified several deficiencies in IRS's internal control over financial reporting that we did not consider to be material weaknesses or significant deficiencies, either individually or collectively, but nonetheless warrant IRS management's attention. These control deficiencies are related to

¹GAO, *Financial Audit: IRS's Fiscal Years 2015 and 2014 Financial Statements*, [GAO-16-146](#) (Washington, D.C.: Nov. 12, 2015).

²In March 2016, we issued a separate report on the information security issues identified during our fiscal year 2015 audit, including the previously unresolved and new issues that collectively contributed to a significant deficiency in internal control over financial reporting systems as of September 30, 2015, along with associated new recommendations for corrective actions. See GAO, *Information Security: IRS Needs to Further Improve Controls over Financial and Taxpayer Data*, [GAO-16-398](#) (Washington, D.C.: Mar. 28, 2016).

³A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

⁴GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting*, [GAO-15-480R](#) (Washington, D.C.: May 29, 2015).

- verification of manually classified unpaid tax assessments,
- adjudication approval for applicants,
- accountability over duress alarms,
- oversight at taxpayer assistance centers,
- initiation and monitoring of manual refunds,
- certification of manual refunds,
- quality review over input corrections,
- accounting for missing and unverified assets,
- accuracy and completeness of tangible property and equipment,
- accounting for assets in the general ledger,
- authorization of asset disposals,
- accuracy of future lease payments for noncancelable operating leases, and
- verification of payroll adjustments.

This report provides 17 recommendations pertaining to the new control deficiencies. These recommendations are intended to improve IRS's internal controls over its financial management and accountability of resources as well as bring IRS into conformance with its own policies and the *Standards for Internal Control in the Federal Government*.⁵

As of September 30, 2015, IRS had completed corrective action on 17 of the 42 recommendations from our prior financial audits that remained open at the beginning of our fiscal year 2015 audit. As a result, IRS currently has 42 GAO recommendations to address, which consist of the previous 25 open recommendations and the 17 new recommendations we are making in this report. Enclosure I provides details on the status of IRS's actions to address the open recommendations from our prior audits.

In commenting on a draft of this report, IRS stated that it remains committed to implementing appropriate improvements to ensure that IRS maintains sound financial practices. IRS agreed with our 17 new recommendations and described actions it had taken or planned to take to address each recommendation. IRS's comments are reprinted in their entirety in enclosure II.

Objectives, Scope, and Methodology

Our objectives were to evaluate IRS's internal control over financial reporting⁶ and to determine the status of IRS's corrective actions to address recommendations in our prior years' reports for which actions were not complete as of September 30, 2014. This work was performed in

⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999), contains the internal control standards to be followed by executive agencies in establishing and maintaining systems of internal control as required by 31 U.S.C. § 3512 (c), (d) (commonly referred to as the Federal Managers' Financial Integrity Act). *Standards for Internal Control in the Federal Government* was revised in September 2014, and the new standards are effective beginning with fiscal year 2016. Our report addresses internal control deficiencies from our fiscal year 2015 audit; therefore, we reference the November 1999 version of *Standards for Internal Control in the Federal Government* throughout our report.

⁶An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

connection with our audit of IRS's financial statements for the fiscal years ended September 30, 2015, and 2014, for the purpose of supporting our opinion on whether effective internal control over financial reporting was maintained, in all material respects. We designed our audit procedures to test relevant controls, including those for proper authorization, execution, accounting, and reporting of transactions and for the safeguarding of assets and taxpayer information. In conducting the audit, we reviewed applicable IRS policies and procedures, observed operations, tested statistical and nonstatistical samples of transactions, examined relevant documents and records, and interviewed IRS management and staff.

During the course of our work, we communicated our findings to IRS management. We performed our audit of IRS's fiscal years 2015 and 2014 financial statements in accordance with U.S. generally accepted government auditing standards. We believe our audit provided a reasonable basis for our conclusions in this report.

Internal Control Deficiencies Identified in Our Fiscal Year 2015 Audit

Verification of Manually Classified Unpaid Tax Assessments

Because of limitations in IRS's financial systems and errors in taxpayer accounts, IRS's systems are unable to readily distinguish all unpaid tax assessments among taxes receivable, compliance assessments, and write-offs⁷ in order to properly classify these components for financial reporting purposes.⁸ To compensate for these deficiencies, IRS uses a manual process to determine the adjustments needed to correctly report the various unpaid tax assessment balances. One of the actions that IRS performs as part of this manual compensating process is to review all new unpaid tax assessments above a certain dollar threshold amount to determine whether its systems correctly classified them for financial reporting. If an amount is incorrectly classified, IRS manually records information in the taxpayer's account to override the systems' classification and force the unpaid tax assessment into the correct category for financial reporting purposes. The manually designated classification remains on the taxpayer's account unless or until IRS reverses it.

Condition. We found two instances where IRS recorded a manual override to place an unpaid tax assessment into the correct category during prior years and did not verify that the category

⁷An unpaid tax assessment is a legally enforceable claim against a taxpayer and consists of taxes, penalties, and interest that have not been collected or abated (i.e., the tax assessment reduced by IRS). Internal Revenue Manual (IRM) § 1.34.1, *Definitions and Acronyms* (June 23, 2009). Federal accounting standards classify unpaid tax assessments into one of the following three categories for reporting purposes: federal taxes receivable, compliance assessments, and write-offs. Federal taxes receivable are taxes due from taxpayers for which IRS can support the existence of a receivable through, for example, taxpayer agreement or a court ruling determining an assessment. Compliance assessments are proposed tax assessments where neither the taxpayer (when the right to disagree or object exists) nor a court has affirmed that the amounts are owed. Write-offs represent unpaid tax assessments for which IRS does not expect further collections because of factors such as the taxpayer's death, bankruptcy, or insolvency. Additionally, the standards require only federal taxes receivable, net of an allowance for uncollectible taxes receivable, to be reported on the financial statements. Compliance assessments and write-offs are reported in required supplementary information to the financial statements. See Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* (May 10, 1996). See also IRM § 1.34.1.

⁸The cumulative impact of these limitations in IRS's financial systems and errors in taxpayer accounts collectively represent a material weakness in IRS's internal control over unpaid tax assessments. See [GAO-16-146](#) for more details on this material weakness.

was still correct for the current year.⁹ For example, in one case, IRS manually classified an unpaid tax assessment as taxes receivable in fiscal year 2012. Subsequently, the taxpayer went out of business, so the unpaid tax assessment should have been classified as a write-off for fiscal year 2015 financial reporting. However, IRS did not identify the change in circumstances and left the unpaid tax assessment in the taxes receivable category.

Criteria. Internal control standards state that an agency's internal control should provide reasonable assurance that transactions are accurately recorded.¹⁰

Cause. Once an unpaid assessment is manually classified, IRS does not have a documented process in place for annually reviewing the classification of such assessments to verify that they are in the correct financial reporting category for the current fiscal year.

Effect. Errors in the classification of individual unpaid tax assessments result in misstatements in the reported balances of the various categories of unpaid tax assessments in the financial statements and required supplementary information to the financial statements.

Recommendation for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to establish and implement formal policies and procedures to annually review unpaid tax assessments that are manually classified to determine whether the classification is correct for the current fiscal year.

Adjudication Approval for Applicants

As part of IRS's hiring policy, all applicants must be fingerprinted as a means for IRS to investigate and determine, or adjudicate, suitability for employment. Upon request by IRS's Employment Operations staff, the Office of Personnel Management provides IRS with the Federal Bureau of Investigation fingerprint-check reports for prescreening applicants to determine whether they are suitable for employment. If there is an issue in the fingerprint-check result or with the information provided by the applicant, IRS adjudicators in the Personnel Security office are to review the information associated with the applicant to determine whether the applicant should be determined suitable for employment with IRS.

Condition. We identified six employees hired by IRS during the period of October 1, 2014, through April 30, 2015, who were allowed to enter on duty by the Employment Operations staff without favorable determinations of suitability by Personnel Security adjudicators.¹¹ For five of the six employees, a determination of suitability had not been completed before they entered on duty, and one of the five was subsequently deemed unsuitable for employment. The remaining employee was also allowed to enter on duty even though adjudicators had made a

⁹We identified one of these cases through our testing of 131 taxes receivable accounts, a subset of IRS's review of a statistical sample of 483 taxes receivable accounts, to determine whether IRS's financial systems correctly classified the accounts for financial reporting. In addition to our sample, we reviewed any account that IRS determined its systems incorrectly classified. We identified the second error through this review. As a result, we cannot statistically project the combined effect of the two errors on the entire taxes receivable population.

¹⁰GAO/AIMD-00-21.3.1.

¹¹We reviewed a nonstatistical selection of 127 employees hired by IRS during the period of October 1, 2014, through April 30, 2015, who required further review before determining suitability for employment. Of these, 6 were allowed to enter on duty by the Employment Operations staff without a favorable prescreening suitability determination by Personnel Security adjudicators. Because this was a nonstatistical selection, the results cannot be projected to the population.

determination of unsuitability. As of June 30, 2015, both employees judged unsuitable for employment were still employed by IRS.¹²

Criteria. IRS's policy requires that in all cases, the results of an applicant's fingerprint check be received and adjudicated prior to the applicant entering on duty. The policy further states that no Employment Operations staff has the authority to deviate from this requirement.¹³ Internal control standards state that agencies should establish controls to safeguard vulnerable assets, and that access to resources and records, such as IRS receipts and taxpayer information, be limited to authorized individuals to reduce the risk of unauthorized use or loss to the government.¹⁴

Cause. IRS did not have a control in place to prevent Employment Operations staff from allowing potential employees to enter on duty without favorable determinations of suitability by Personnel Security adjudicators. Further, IRS did not have documented policies or procedures outlining the steps that should be taken if it is later discovered that an employee was deemed unsuitable for employment during the prescreening process.

Effect. By not ensuring that only employees with a favorable determination of suitability are allowed to enter on duty, IRS increases the vulnerability of taxpayer receipts and sensitive data to theft and misuse.

Recommendations for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to take the following two actions:

- Establish a process to prevent Employment Operations staff from allowing potential employees to enter on duty without favorable determinations of suitability by Personnel Security adjudicators.
- Establish a policy and procedures requiring IRS officials to review and address situations in which it is later discovered that an employee deemed unsuitable for employment during the prescreening process was erroneously allowed to enter on duty.

Accountability over Duress Alarms

To assist in managing the risk of physical threats to IRS employees and the assets they safeguard, IRS maintains a system of electronic duress alarms at key locations in its field offices. The duress alarms are linked to a central monitoring station that is responsible for notifying a qualified first responder and contacting a designated IRS official when an alarm is activated. Alarm activations, including the date and time of activation, are compiled by the central monitoring station in an Emergency Signal History report. We previously reported deficiencies related to the design of controls over duress alarms and made recommendations for IRS to address them.¹⁵ In response, IRS established policies and procedures to improve accountability over duress alarms. However, during our fiscal year 2015 audit, we identified deficiencies with IRS's implementation and enforcement of these policies and procedures.

¹²One of these employees was hired in November 2014 and one was hired in January 2015.

¹³IRM § 10.23.3.3, *Appointee/Applicant Suitability Prescreening and Fingerprint Check* (Nov.15, 2011).

¹⁴[GAO/AIMD-00-21.3.1](#).

¹⁵GAO, *Management Report: Improvements Are Needed to Enhance IRS's Internal Controls and Operating Effectiveness*, [GAO-09-513R](#) (Washington, D.C.: June 24, 2009).

Condition. We found that IRS's procedures for testing and maintaining accountability over its duress alarms were not always properly followed. Specifically, during our visits to eight IRS field offices we found the following:

- At four offices, testing procedures did not always cover all duress alarms.
- At one office, duress alarm testing documents were not signed and dated by the security specialist.
- At two offices, the security specialists did not document their validation of the duress alarm inventory.
- At one office, the Emergency Signal History report did not include the detail needed for a first responder to promptly identify the location of several duress alarms.
- At one office, validations of the duress alarm inventory were not maintained for the minimum 1 year.

Criteria. IRS's policies and procedures require duress alarm testing to be conducted quarterly at field offices and documentation of the testing to be signed and dated.¹⁶ IRS's policies and procedures also require (1) an inventory validation of all duress alarms to be conducted quarterly for each field office, (2) the inventory to be dated and signed by the security specialist and include the location of each alarm as accurately as possible, and (3) the inventory validation to be maintained for a minimum of 1 year.¹⁷

Cause. Based on discussions with IRS officials, we found that Facilities Management and Security Services staff responsible for overseeing the duress alarms at the sites we visited were not provided training and were unaware of certain IRS requirements for validating and testing duress alarms.

Effect. By not properly conducting duress alarm tests and validating duress alarm inventories, IRS cannot be reasonably assured that duress alarms are operating properly and are easily identifiable by emergency personnel. This, in turn, increases the risk that IRS will not be able to appropriately and quickly respond to emergency situations to protect its employees and facilities and safeguard taxpayer receipts and information.

Recommendation for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to develop and provide training, on a recurring basis, to all Facilities Management and Security Services specialists and managers involved in the duress alarm validation and testing process to reinforce the related policies and procedures.

Oversight at Taxpayer Assistance Centers

IRS's Field Assistance Office, which oversees taxpayer assistance centers (TAC),¹⁸ implemented the TAC Security and Remittance Review Database (TSRRD) to assist the office

¹⁶IRM Exhibit 10.2.14-2, *Alarm Test Matrix Summary* (Sept. 23, 2009).

¹⁷IRM § 10.2.14.9.1 (11), *Intrusion Detection Systems & Duress Alarms* (Sept. 23, 2009).

¹⁸TACs serve taxpayers who choose to seek help from IRS in person. TAC services may include interpreting tax laws and regulations, resolving inquiries on taxpayer accounts, receiving payments, forwarding those payments to appropriate service center campuses for deposit and further processing, and performing other services designed to minimize the burden on taxpayers in satisfying their tax obligations. IRM § 21.3.4.2, *Standard Services in a Taxpayer Assistance Center* (Oct. 1, 2014). During fiscal year 2015, there were 380 TACs located throughout the United States and Puerto Rico.

in monitoring each TAC's adherence to operational and security controls designed to collect, process, and safeguard taxpayer receipts and information. TAC group managers, who are responsible for managing the day-to-day operations at these TACs, are also responsible for conducting quarterly reviews to assess the effectiveness of these controls and entering the results of their reviews into the TSRRD by answering a series of questions. TAC territory managers are responsible for overseeing TAC group managers and reviewing the responses entered in the TSRRD for accuracy and completeness. Field Assistance headquarters management uses the TSRRD to track the progress of corrective actions addressing weaknesses identified during the quarterly reviews and to monitor prior audit findings.

Condition. IRS's TAC group and territory managers did not always accurately assess the status of operational and security controls at their locations. During our visits to eight TACs, we found the following:

- At seven of the TACs we visited, several of the TAC group managers' fiscal years 2014 and 2015 responses to TSRRD questions either were inaccurate or were not provided with no explanation.
- At four of the TACs we visited, the TAC territory manager was new to the position and did not review the information entered in the TSRRD.

Criteria. IRS's policies and procedures require that TAC (1) group managers conduct reviews throughout the year and record their results in the TSRRD and (2) territory managers review the information entered into the TSRRD by the TAC group managers for accuracy and completeness prior to submission to the Field Assistance Office.¹⁹

Cause. IRS does not have job aids, detailed written guidance, or ongoing training for TAC group or territory managers that clearly outlines the work to be performed for answering each TSRRD question or performing supervisory reviews of the information entered into the TSRRD.²⁰

Effect. Inaccurate and incomplete TSRRD submissions result in unreliable information being used by Field Assistance management to monitor and assess TAC adherence to operational and security controls. This, in turn, increases the risk that IRS management will not timely detect control deficiencies and thus may fail to prevent the theft or loss of, or unauthorized access to, taxpayer receipts and information.

Recommendations for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to take the following two actions:

¹⁹IRM Exhibit 1.4.11-10, *Taxpayer Assistance Center/Payment Processing Checklist* (Jan. 1, 2013), and IRM Exhibit 1.4.11-7, *Territory and Group Manager Mandatory Reviews, Reports and Certifications* (Mar. 13, 2014).

²⁰In June 2010, we issued recommendations related to the TSRRD calling for more clarity surrounding the review questions, ongoing training of TAC managers, and supervisory reviews by the territory managers of the information entered into the TSRRD by group managers. IRS subsequently implemented corrective actions, and these recommendations were closed during our fiscal years 2010 and 2011 audits. However, deficiencies that these corrective actions were designed to address resurfaced during our fiscal year 2015 audit. See GAO, *Management Report: Improvements Are Needed in IRS's Internal Controls and Compliance with Laws and Regulations*, [GAO-10-565R](#) (Washington, D.C.: June 28, 2010); *Internal Revenue Service: Status of GAO Financial Audit and Related Financial Management Report Recommendations*, [GAO-11-536](#) (Washington, D.C.: June 22, 2011); and *Internal Revenue Service: Status of GAO Financial Audit and Related Financial Management Recommendations*, [GAO-12-695](#) (Washington, D.C.: June 28, 2012).

- Develop job aids that provide detailed written guidance for TAC (1) group managers for use in answering TSRRD review questions effectively and (2) territory managers that explicitly outline the requirements for reviewing TSRRD submissions.
- Establish and implement a policy requiring recurring training for TAC group and territory managers on their TSRRD responsibilities, including detailed instructions for completing responses to questions in TSRRD and for reviewing TSRRD submissions for accuracy and completeness. This training should be updated for changes in TSRRD questions over time and be provided to new TAC group and territory managers soon after they are hired or appointed.

Initiation and Monitoring of Manual Refunds

IRS's automated systems generate most refunds after the taxpayers' returns are posted to their master file accounts.²¹ However, IRS requires that refunds meeting certain criteria, for example, those exceeding \$10 million or meeting certain hardship conditions, be manually processed.²² Manual refunds bypass most of the validity checks that occur with automated refunds and may be issued within a few days of initiation.²³ While manual refunds can be paid out quickly, IRS's system does not record the manual refund generated on the taxpayer's master file account until several weeks after the manual refund is initiated, which increases the potential for erroneous or duplicate refunds because IRS's manual and automated refund processing are not systematically coordinated to prevent both refunds from being issued. To mitigate this risk, IRS updated monitoring policies and procedures, including the creation of a monitoring tool,²⁴ for manual refunds.

Condition. While we verified that employees responsible for initiating, monitoring, and reviewing the monitoring of manual refunds received the required training that covered IRS's policies and procedures designed to prevent the issuance of duplicate or erroneous refunds, these policies and procedures were not always properly followed. Specifically, we found the following:

- A manual refund initiator did not perform the research on taxpayers' accounts required to ensure that there were no outstanding debts.
- Designated staff did not always perform daily monitoring of individual taxpayer accounts to check for duplicate refunds.
- Designated staff did not always send the manual refund monitoring files to the manager for review.

²¹IRS's master files contain the detailed records of taxpayer accounts. There are several master files, the most significant of which are the Individual Master File, which contains tax records of individual taxpayers, and the Business Master File, which contains tax records of corporations and other businesses.

²²IRM § 21.4.4.2, *Why Would A Manual Refund Be Needed?* (Oct. 1, 2014).

²³In this context, a manual refund is a refund that is not generated through routine IRS automated system processing. Automated refunds are those refunds generated through IRS's automated systems. IRM § 21.4.4.1, *What Is a Manual Refund?* (May 16, 2011).

²⁴IRS's manual refund monitoring tool is a software tool that works with IRS's system to assist designated staff with the monitoring of manual refunds. Specifically, the monitoring tool performs research on taxpayer accounts and notifies the designated staff if duplicate refund conditions exist on the account. This helps prevent and detect duplicate refunds. Further, the monitoring tool creates files that detail the monitoring activity for each manual refund.

- Reviewing officials did not always use the monitoring tool to perform managerial review of monitoring activities.²⁵
- Reviewing officials did not always document their review of manual refund monitoring activities as required.

Criteria. According to IRS's policies and procedures, when a manual refund is initiated, the following should occur:

- The manual refund initiator is to research the taxpayer's account to ensure that there are no outstanding debts that may result in the refund amount being reduced or not approved.²⁶
- Designated staff are to monitor individual taxpayer accounts and business taxpayer accounts on a daily and weekly basis, respectively.²⁷
- Designated staff are to send monitoring files detailing monitoring activity to a reviewing official.²⁸
- On a weekly basis, reviewing officials are to review the monitoring files using the monitoring tool to verify that the designated staff monitored manual refunds as required.²⁹
- On a weekly basis, reviewing officials are to document their review of the designated staff's monitoring of manual refunds on a Manager's Monitoring Confirmation Log.³⁰

Cause. IRS did not effectively enforce its manual refund policies and procedures to reasonably assure employee compliance throughout the process.

Effect. By not following its established policies and procedures for initiating, monitoring, and reviewing the monitoring of manual refunds, IRS increases the risk that account monitoring and related reviews may not be conducted timely and consistently, thereby increasing the risk that duplicate refunds, erroneous refunds, or both will be issued.

Recommendation for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to determine the reason(s) why staff did not always comply with IRS's established policies and procedures related to initiating, monitoring, and reviewing the monitoring of manual refunds and, based on this determination, establish a process to better enforce compliance with these requirements.

Certification of Manual Refunds

Certifying officers (CO) are responsible for reviewing the accuracy and completeness of the supporting documentation used to request payment for manual refunds. Each of IRS's five submission processing centers (SPC) must designate at least one CO and one or more alternates with responsibility for certifying manual refunds for payment.

²⁵Reviewing officials are generally the team manager or a designated reviewer.

²⁶IRM § 21.4.4.3.3, *Non Master File Research* (Oct. 1, 2014).

²⁷IRM § 21.4.4.5.1, *Monitoring Manual Refunds* (June 20, 2014).

²⁸IRM § 21.4.4.5.1.

²⁹IRM § 21.4.4.5.1.

³⁰IRM § 21.4.4.5.1.

Condition. We found that one of the four COs at the SPC we visited did not review all supporting documentation for manual refunds as part of the certification process, as required. COs at this SPC certified approximately 21,000 manual refunds totaling about \$71 million during fiscal year 2015.

Criteria. According to IRS's procedures, COs must review supporting documentation for the manual refund for completeness and accuracy as part of the certification process.³¹

Cause. Based on our discussion with the CO, we found that the CO was not aware of the requirement to review all of the supporting documentation for manual refund as part of the certification process. In addition, while IRS provides mandatory training to all COs annually, we found that the training did not include information on the job responsibilities pertaining to certifying manual refunds for payment, including the review of supporting documentation.

Effect. By not performing the required review of supporting documentation for manual refunds for accuracy and completeness, IRS increases the risk of disbursing erroneous or fraudulent manual refunds.

Recommendation for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to enhance the training program provided to COs to address all the job responsibilities related to certifying manual refunds for payment, including the required review of supporting documentation for manual refunds.

Quality Review over Input Corrections

For fiscal year 2015, IRS reported that 201 million tax returns were processed and \$403 billion in federal tax refunds and outlays were disbursed.³² During processing, IRS's systems perform a series of validations and checks to identify errors on tax returns. The tax returns with errors are routed to various units in the Input Correction Operation (ICO) based on the error type identified. ICO tax examiners are to correct the identified errors made by the taxpayers and errors made during return processing. The ICO tax examiners' work is subject to quality review in order to identify problems and recommend and initiate corrective action to eliminate the potential for errors in ICO, as well as to collect information to assess tax examiner's performance.

Condition. We found that ICO quality reviewers at the SPC we visited did not always perform the required weekly reviews of a sample of cases worked by ICO tax examiners.

Criteria. According to IRS's procedures, on a weekly basis, ICO quality reviewers are required to select and review a sample of cases worked by each ICO tax examiner to identify problems and ensure quality.³³

Cause. IRS did not effectively enforce procedures to reasonably assure that quality reviews of the work of ICO tax examiners were being performed each week. In addition, IRS cited periodic

³¹IRM § 3.17.79.1.8, *Designating Certifying Officers (CO) and CO Review* (Nov. 5, 2014).

³²Federal tax refunds and outlays include overpayments made by taxpayers; payments for various refundable tax credits, including the Earned Income Tax Credit and the Premium Tax Credit; and other payments, including the Cost Sharing Reduction and Basic Health Program made pursuant to the Patient Protection and Affordable Care Act.

³³IRM § 3.30.30.7, *Quality Review Sampling* (Sept. 30, 2014), and IRM § 3.30.30.7.1, *Individual Review Sampling* (Sept. 30, 2014).

backlogs of ICO inventory as the reason why the quality review requirements were not met since some ICO quality reviewers were called upon to help perform ICO tax examiners' work in order to reduce the backlog.

Effect. By not reviewing the work of ICO tax examiners, IRS decreases its effectiveness in identifying and resolving problems, thereby increasing its risk of processing and disbursing erroneous or fraudulent refunds.

Recommendations for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to take the following two actions:

- Issue a written reminder to quality review units responsible for reviewing the work of ICO tax examiners reiterating the existing quality review requirement to select and review cases, on a weekly basis, worked by each ICO tax examiner.
- Identify the cause of and implement a solution for dealing with the periodic backlogs of ICO inventory that is hampering the performance of quality reviews.

Accounting for Missing and Unverified Assets

IRS's Hardware Asset Management Inventory Certification Plan contains policies and procedures related to IRS's routine verification of the existence of its tangible property and equipment (P&E) assets.³⁴ IRS personnel with equipment ownership and asset responsibility are to conduct targeted annual inventories and rely on perpetual inventory methods to verify the existence of tangible P&E.³⁵ Key information for these assets, such as the location of an asset and its last inventory date, is maintained in the Knowledge Incident/Problem Service Asset Management (KISAM) system.

Condition. We found that there were 1,045 tangible P&E assets that were included in IRS's financial statements but were identified as "missing" in the KISAM system for more than 2 fiscal years. In addition, we identified approximately 6,000 tangible P&E assets included in IRS's financial statements and recorded in the KISAM system as of September 30, 2015, that could not be located during the annual inventory process for at least 2 fiscal years that had not yet been placed in missing status.

Criteria. According to federal accounting standards, tangible assets recorded as P&E should be available for use by the entity.³⁶ Internal control standards state that transactions and events should be promptly and accurately recorded to maintain their relevance and value to management in controlling operations and making decisions.³⁷

³⁴Tangible assets are assets that have a physical form and include property, plant, and equipment that (1) has an estimated useful life of 2 or more years, (2) is not intended for sale in the ordinary course of business, and (3) is intended to be used or available for use by the entity. See Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant and Equipment* (June 1996).

³⁵IRS conducts annual inventories of high-value and critical information technology equipment. Currently, IRS uses a hybrid asset inventory approach that includes several perpetual inventory methods along with targeted physical inventories. IRS's perpetual inventory methods include hardware and software tools to verify the existence and accuracy of assets in the Knowledge Incident/Problem Service Asset Management system, such as electronic and network scans that can identify computers and other equipment connected to the IRS network.

³⁶Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant and Equipment*.

³⁷[GAO/AIMD-00-21.3.1](#).

Cause. IRS does not have a policy to reasonably assure that missing assets and assets that could not be located during inventory are removed from the financial statements on a timely basis. Specifically, its policies do not specify (1) how long assets can remain in a missing status before they are removed from P&E amounts reported on the financial statements or (2) how long assets can go unverified during the annual inventory process before they are to be identified as missing in the property management system.

Effect. By allowing missing and unverified assets to remain in its financial statements and property management system, IRS overstates its financial statements by reporting amounts for P&E assets that no longer exist.

Recommendations for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to take the following two actions:

- Establish policies for (1) how long an asset can remain in missing status before it is removed from P&E reported on the financial statements and (2) how long assets can go unverified during the annual inventory process before they are identified as missing in the property management system.
- Establish and implement procedures to reasonably assure that missing assets are timely removed from the financial statements when applicable.

Accuracy and Completeness of Tangible Property and Equipment

IRS tracks the majority of its capitalized tangible P&E in the KISAM system. IRS utilizes this asset management system to maintain detailed information, such as the location of the asset, IRS-generated bar code, serial number, latest inventory date, and disposal data, which it uses to conduct its annual inventory of tangible P&E in order to assert to their existence. IRS's Hardware Asset Management Inventory Certification Plan provides instructions to staff on how to certify and update the detailed information for tangible P&E in the KISAM system during the annual inventory process.

Condition. We found that certain key detailed information, such as the bar code, serial number, and building code, was not always accurately recorded and updated in the KISAM system. For example, during our book-to-floor³⁸ statistical testing, we identified the following:³⁹

- two assets that had incorrect serial numbers recorded in the KISAM system,
- one asset that could not be physically located,
- one asset that had two bar codes attached to it, and
- one asset with no bar code attached to it.

³⁸We traced the assets from the KISAM system to the actual IRS physical locations.

³⁹We identified five errors in a two-stage probability proportionate to size sample of 60 capitalized assets selected from IRS's KISAM database of 60,895 assets, as of March 31, 2015. For an observed number of five errors in the sample, we can be 95 percent confident that the population deviation rate is not more than 16.8 percent, or approximately 10,238 inaccurate asset records. This is greater than our tolerable deviation rate of 10 percent, or approximately 6,090 asset records.

In addition, during our floor-to-book nonstatistical testing,⁴⁰ we identified the following:

- one asset with an incorrect building code recorded in the KISAM system;
- one asset that was received and accepted in July 2014 but not entered into the KISAM system until April 30, 2015;
- one asset that was incorrectly classified in the KISAM system and therefore would not have been included in the annual inventory process; and
- three assets that were not recorded in the KISAM system as required.

Criteria. IRS's policy requires that all equipment used for regular administrative and general office purposes be recorded and tracked in the KISAM system and states that serial numbers, bar codes, and building codes must be kept accurate and current.⁴¹ IRS's policy also states that serial numbers, bar codes, and building codes should be verified during the annual inventory process.⁴² In addition, IRS's policy establishes guidelines for the classification of the assets based on the functionality of the computer components.⁴³ Internal control standards state that management should perform ongoing monitoring of the operating effectiveness of the control activities.⁴⁴

Cause. IRS did not have routine monitoring controls in place to reasonably assure that staff were properly adhering to policies and procedures for recording and updating key detailed information for tangible P&E in the KISAM system.

Effect. Not ensuring that the information recorded in the KISAM system is accurate and up to date (1) hinders IRS's ability to maintain full accountability over its tangible capitalized assets, which in turn increases the risk of theft or loss of government property and equipment, and (2) jeopardizes the integrity of the information that management uses for decision making.

Recommendation for Executive Action. We recommend that the IRS Commissioner direct the appropriate officials to establish and implement monitoring procedures designed to reasonably assure that the key detailed information for tangible capitalized P&E is properly recorded and updated in the KISAM system.

Accounting for Assets in the General Ledger

In its fiscal year 2015 financial statements, IRS reported more than \$1.8 billion in net capitalized P&E. Nearly 25 percent of this account balance, or over \$450 million, comprised tangible P&E. IRS records supporting information for tangible P&E, such as the historical cost of an asset, location, and serial number, in a subsidiary ledger that is separate from the general ledger used for financial reporting.

⁴⁰For our floor-to-book testing, we randomly selected assets on the floor at the locations we selected for our book-to-floor testing, and traced them back to the KISAM system. The exceptions from our floor-to-book testing are not generalizable.

⁴¹IRM § 2.14.1.13(2), *Asset Management Processes* (Nov. 8, 2011).

⁴²IRM § 2.14.1.13(2).

⁴³IRM § 2.14.1(1), *Information Technology Asset Management* (Nov. 8, 2011).

⁴⁴[GAO/AIMD-00-21.3.1](#).

Condition. We found that IRS did not always maintain adequate detailed supporting information in its subsidiary ledger for tangible capitalized P&E.⁴⁵

Criteria. Internal control standards state that internal control should provide reasonable assurance that an agency's financial reporting is reliable, and require management to design control activities so that all transactions are completely and accurately recorded.⁴⁶

Cause. IRS did not have a process in place to reasonably assure the adequacy of detailed supporting information for amounts recorded in its general ledger for tangible P&E.

Effect. By not ensuring the adequacy of detailed information for tangible capitalized P&E, IRS increases the risk that the balances for these assets on the financial statements may not be completely or accurately reported.

Recommendation for Executive Action. We recommend that the IRS Commissioner direct the appropriate officials to design a process to reasonably assure the adequacy of detailed supporting information for tangible P&E amounts recorded in the general ledger.

Authorization of Asset Disposals

IRS's policies and procedures require that when disposing of assets, a disposal form be prepared and submitted to the respective Facilities Management and Security Services office for review and approval. During our fiscal year 2013 audit, we identified deficiencies in IRS's controls over the approval of asset disposals and made a recommendation to IRS management to address these deficiencies.⁴⁷ In response to our recommendation, IRS issued a directive and memorandum to its business units reinforcing existing policies and procedures concerning the approval of asset disposals.⁴⁸ In addition, Facilities Management and Security Services management performs reviews of the territories' asset disposal activities.

Condition. During our testing of a statistical sample of asset disposal transactions, we identified three instances where the disposal approval forms were either not signed by an authorized approving official or were not approved prior to the asset's disposal.⁴⁹

Criteria. According to IRS policy, only Facilities Management and Security Services section chiefs and management officials have the authority to approve the disposals of assets in their designated territory.⁵⁰ After the disposal forms are signed by authorized approvers, assets

⁴⁵Based on our audit procedures, we were able to determine that the amounts reported for tangible P&E were not materially misstated.

⁴⁶[GAO/AIMD-00-21.3.1](#).

⁴⁷GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Controls*, [GAO-14-433R](#) (Washington, D.C.: July 2, 2014).

⁴⁸[GAO-15-480R](#).

⁴⁹We identified three errors in a simple random attribute sample of 78 disposal transactions from IRS's interim population of 41,188 disposal transactions that occurred from October 1, 2014, through June 30, 2015. For an observed number of three errors in a sample size of 78, we can be 90 percent confident that the population deviation rate is not more than 8.36 percent, or approximately 3,443 inaccurate disposal transactions in the population. This is greater than our tolerable deviation rate of 5 percent, or approximately 2,059 inaccurate disposal transactions.

⁵⁰IRM § 1.14.4.3 *Personal Property Management* (Nov. 24, 2014).

awaiting disposal are transferred to a third party for final disposal.⁵¹ Internal control standards state that management should perform ongoing monitoring of the operating effectiveness of the control activities, such as regular management and supervisory activities.⁵²

Cause. IRS's procedures for managerial reviews of disposal activities did not explicitly instruct Facilities Management and Security Services management to assess whether disposal actions were approved by authorized individuals and whether the approvals occurred prior to the disposal of assets.

Effect. By not properly following asset disposal policies and procedures, IRS is at increased risk that assets could be disposed of erroneously or incorrectly.

Recommendation for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to update IRS policies and procedures for managerial reviews of disposal activities to explicitly instruct managers to assess whether disposal actions are approved by those authorized to do so and that approval is obtained prior to the disposal of assets.

Accuracy of Future Lease Payments for Noncancelable Operating Leases

Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, states that agencies should disclose in the notes to the financial statements the amount of future lease payments for noncancelable operating leases that have terms longer than 1 year. IRS determines future lease payments based on the lease terms in the occupancy agreements. Occupancy agreements contain a baseline termination date; however, agreements can include an ad hoc clause that has a specific lease cancellation date that overrides the baseline termination date.

Condition. During our nonstatistical testing of IRS's operating leases in fiscal year 2015, we identified instances where IRS did not accurately calculate future lease payments for noncancelable operating leases. Specifically, for five agreements, IRS did not consider the ad hoc clauses included with the lease occupancy agreements and therefore used the wrong lease termination date in its calculation of future lease payments.

Criteria. Internal control standards state that an agency should provide reasonable assurance that transactions are accurately recorded.⁵³

Cause. IRS has not established written procedures for interpreting the correct lease termination dates based on the terms in the occupancy agreements and for calculating and performing supervisory review of the amounts of future payments for noncancelable operating leases.

Effect. By inaccurately calculating future lease payments, IRS increases the risk that the reported amount of future lease payments for noncancelable operating leases will be inaccurate in the notes to the financial statements.

⁵¹IRM § 1.14.4.15.2, *Disposal of IT Equipment* (Nov. 24, 2014).

⁵²[GAO/AIMD-00-21.3.1](#).

⁵³[GAO/AIMD-00-21.3.1](#).

Recommendation for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to establish and implement detailed written procedures for calculating future lease payments for noncancelable operating leases that are reported in the notes to the financial statements. The procedures should (1) include steps for considering any ad hoc clauses that may have specific termination dates and (2) include a requirement for supervisory review to provide reasonable assurance of the accuracy of future lease payment amounts for noncancelable operating leases.

Verification of Payroll Adjustments

IRS uses a service provider, the National Finance Center (NFC), to process its payroll.⁵⁴ When payroll adjustments are needed, human resources specialists at IRS payroll centers are to request that NFC process the adjustments via NFC's Special Payroll Processing System. IRS is to follow its accounting code guide for submitting payroll adjustments to NFC.

Condition. During our nonstatistical testing of payroll transactions related to employee separations, we found an instance where IRS did not identify an error in an adjusted agency retirement contribution.⁵⁵ Specifically, in September 2014, IRS billed an employee for negative hours of sick leave upon separation but later waived the bill. In October 2014, IRS submitted a payroll adjustment request to NFC to cancel the bill through the Special Payroll Processing System, specifying the fiscal year 2014 pay period that needed adjustment. However, NFC processed the cancellation against a fiscal year 2015 pay period. Because the agency retirement contribution rate increased between the fiscal years, the adjusted amount for the retirement contribution was greater than the original bill, resulting in an incorrect expense amount recorded in IRS's general ledger.

Criteria. Internal control standards state that an agency's internal control should provide reasonable assurance that transactions are accurately recorded.⁵⁶

Cause. IRS did not identify the discrepancy in the agency contribution amount because, while IRS had detailed procedures for submitting payroll adjustments to NFC, it did not have detailed procedures for verifying that the adjustments were processed correctly by NFC, including against the correct pay period and fiscal year.

Effect. Without verifying that NFC has processed adjustments correctly, there is an increased risk that IRS may not detect and correct errors made by NFC, which in turn, increases the risk that payroll expenses may be misstated in IRS's financial statements.

Recommendation for Executive Action. We recommend that the IRS Commissioner direct the appropriate IRS officials to update IRS's accounting code guide for payroll adjustments to include detailed steps for human resources specialists to verify that submitted payroll adjustments processed by NFC are processed correctly, including against the correct pay period and fiscal year.

⁵⁴NFC is a component of the U.S. Department of Agriculture that provides human resources management services to federal agencies, including IRS.

⁵⁵We selected a nonstatistical sample of five separated employees who received payroll disbursements in fiscal year 2015. Because this was a nonstatistical selection, the results cannot be projected to the population.

⁵⁶[GAO/AIMD-00-21.3.1.](#)

Status of Prior Audit Recommendations

IRS has continued to work to address many of the control deficiencies related to open recommendations from our prior financial audits. At the beginning of our fiscal year 2015 financial audit, there were 42 recommendations to improve IRS's financial operations and internal controls from prior year audits that we reported as open in our status of recommendations in the management report issued in May 2015.⁵⁷ In the course of performing our fiscal year 2015 financial audit, we identified numerous actions IRS took to address many of the previously identified control deficiencies. On the basis of IRS's actions taken through September 30, 2015, which we were able to substantiate through our audit, we are closing 17 of these recommendations. As a result, a total of 42 recommendations need to be addressed—25 remaining from our prior years' audits and the 17 new recommendations we are making in this report. See enclosure I for more details on our assessment of the status of IRS's actions to address our prior audit recommendations that remained open at the beginning of this year's audit.

Agency Comments and Our Evaluation

In his May 5, 2016, written comments on a draft of this report, the IRS Commissioner stated that IRS is committed to implementing appropriate improvements to ensure that IRS maintains sound financial management practices. IRS agreed with our 17 new recommendations and described actions it had taken or planned to take to address each recommendation. IRS's actions, if effectively implemented, should address the issues that gave rise to our recommendations. We will evaluate the effectiveness of IRS's efforts during our audit of its fiscal year 2016 financial statements and future audits. IRS's written comments are reprinted in their entirety in enclosure II.

- - - - -

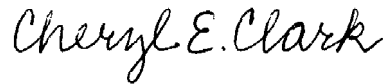
This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken on these recommendations. You should submit your statement to the Senate Committee on Homeland Security and Governmental Affairs and to the House Committee on Oversight and Government Reform within 60 days of the date of this report. A written statement must also be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report. Furthermore, to ensure that GAO has accurate, up-to-date information on the status of your agency's actions on our recommendations, we request that you also provide us with a copy of your agency's statement of actions taken on open recommendations. Please send your statement of actions to me at clarkce@gao.gov or Christopher Spain, Assistant Director, at spainc@gao.gov.

We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Appropriations, Senate Committee on Finance, Senate Committee on Homeland Security and Governmental Affairs, House Committee on Appropriations, House Committee on Ways and Means, and House Committee on Oversight and Government Reform, and to the Chairman and Vice Chairman of the Senate Joint Committee on Taxation. We are also sending copies to the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Chairman of the IRS Oversight Board. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

⁵⁷GAO-15-480R.

We acknowledge and appreciate the cooperation and assistance provided by IRS officials and staff during our audits of IRS's fiscal years 2015 and 2014 financial statements. If you or your staff have any questions about this report, please contact me at (202) 512-9377 or clarkce@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure III.

Sincerely yours,

A handwritten signature in black ink that reads "Cheryl E. Clark". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

Cheryl E. Clark
Director
Financial Management and Assurance

Enclosures – 3

Enclosure I: Status of Recommendations from Prior Audits Reported as Open in GAO's 2014 Management Report⁵⁸

ID	Number	Recommendation per audit area	Year initially reported	Source report	Status	
					Closed	Open
Financial reporting						
1	12-02	<p>Enhance existing policies and procedures pertaining to monitoring internal control over the automated systems operated by IRS personnel to specifically provide for routine, documented monitoring of the specific internal controls within its financial reporting systems that are intended to ensure the integrity of the data reported in the financial statements and other financial reports. This monitoring process should (1) involve both automated systems specialists and individuals with expertise in accounting and reporting, as appropriate; (2) encompass the specific automated internal controls that affect the authorizing, processing, transmitting, or reporting of material financial transactions; and (3) be designed to determine whether these internal controls are in place and operating effectively.</p> <p>Action taken: IRS has updated the Internal Revenue Manual (IRM) to include a section on continuous monitoring, created a crosswalk to map National Institute of Standards and Technology publications to the IRM requirements for information technology security, and developed documents detailing flow analysis of automated systems supporting IRS's financial reporting. Furthermore, IRS has (1) formed a multidisciplinary team, including automated system specialists and individuals with accounting and financial reporting expertise, and (2) developed a testing schedule of the internal controls over the automated systems. During fiscal year 2015, we evaluated IRS's testing over automated systems and did not identify any significant errors. IRS's actions sufficiently address our recommendation.</p>	2011	GAO-12-683R	X	
2	12-04	<p>Establish policies and procedures with respect to any external financial reporting system IRS personnel themselves do not directly monitor that specify required steps to routinely review periodic reports prepared by service providers' auditors in accordance with Statements on Standards for Attestation Engagements (SSAE) No. 16, including steps to document (1) an assessment of whether a review's scope, methodology, and timing is appropriate to satisfy IRS's objectives; (2) any control deficiencies disclosed in the report, and an assessment of their materiality to IRS's financial reporting process and related risks; and (3) any compensating internal controls needed to mitigate any actual or potential effects of identified deficiencies upon IRS's internal and external financial reports resulting from any (a) material</p>	2011	GAO-12-683R	X	

⁵⁸GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting*, [GAO-15-480R](#) (Washington, D.C.: May 29, 2015).

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	<p>weakness or (b) significant shortcoming in the scope, methodology, or timing of any SSAE No. 16 report reviewed relative to IRS's internal control objectives.</p> <p>Action taken: During fiscal year 2014, we reviewed IRS's revised/updated (May 2014) External System Review Standard Operating Procedures (SOP) and the Supporting Documentation Analysis form, Appendix A to the SOP. The revised SOP included instructions for IRS staff to review the SSAE No. 16 report, if available, identify any control deficiencies reported, determine whether any corrective actions were identified to mitigate the risks created by the control deficiencies, and document their analysis of the provided documentation. During fiscal year 2015, IRS developed and implemented a supplemental SOP that provided additional guidance to staff on documenting the assessment of whether the scope, methodology, and timing of the review by the service provider's auditor was appropriate to satisfy IRS's objectives, and whether any compensating controls are needed if the assessment found any material weakness or significant shortcomings. IRS's actions sufficiently address our recommendation.</p>				
3	14-01	2013	GAO-14-433R	X	
	<p>Revise the service organization monitoring procedures to require, when using an auditor's report prepared in accordance with the Statements on Standards for Attestation Engagements (SSAE) No. 16 to monitor internal control over financial reporting, clearly documenting that IRS appropriately (1) considered any user controls identified as not being included within the scope of the SSAE No. 16 report; (2) identified those user controls that are relevant and material to IRS; and (3) verified that either those controls or comparable, relevant user controls were in place and operating effectively at IRS.</p> <p>Action taken: During fiscal year 2015, IRS developed and implemented a supplemental standard operating procedure guidance document that required, when using an auditor's report prepared in accordance with SSAE No. 16 to monitor internal control over financial reporting, clearly documenting that IRS appropriately (1) considered any user controls identified as not being included within the scope of the SSAE No. 16 report; (2) identified those user controls that are relevant and material to IRS; and (3) verified that either those controls or comparable, relevant user controls were in place and operating effectively at IRS. IRS's actions sufficiently address our recommendation.</p>				
4	14-02	2013	GAO-14-433R	X	
	<p>For each service organization that is significant to IRS's financial reporting and related internal control and for which a current Statements on Standards for Attestation Engagements (SSAE) No. 16 report has not been prepared, establish a memorandum of understanding or agreement with the organization that requires (1) both parties to perform procedures that</p>				

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	<p>are consistent with the most current requirements of the Office of Management and Budget Circular No. A-123 and (2) the service organization to provide IRS access to the organization's personnel, documents, facilities, or combination of these necessary to allow IRS to timely and effectively conduct its own monitoring procedures or review and validate the reliability of monitoring documentation prepared by organization management, as appropriate.</p> <p>Action taken: During fiscal year 2015, IRS established memorandums of understanding/agreement, interconnectivity security agreements, or both with significant service organizations that required (1) both parties to perform procedures that are consistent with the most current requirements of the Office of Management and Budget Circular No. A-123 and (2) the service organization to provide IRS access to the organization's personnel, documents, facilities, or combination of these necessary to allow IRS to timely and effectively conduct its own monitoring procedures or review and validate the reliability of monitoring documentation prepared by organization management, as appropriate. IRS's actions sufficiently address our recommendation.</p>				
Net cost					
5	12-24	Revise the payroll standard operating procedures to require that the designated proxy for a manager required to approve time cards be at an equivalent or higher level as the manager, consistent with the Internal Revenue Manual.	2011	GAO-12-683R	X
	<p>Action taken: In January 2015, IRS revised the Delegation Order for certifying time and attendance to require the designated proxy for a manager to be at an equivalent or higher level as the manager in order to approve time cards. In addition, IRS revised the related Internal Revenue Manual section and issued a Leader's Alert to remind managers of the policy change. IRS's actions sufficiently address our recommendation.</p>				
6	12-25	Incorporate in the planned 2012 policy change requiring the manager or designated proxy to sign the electronic time card before transmitting payroll records to the National Finance Center the requirement that the designated proxy be at an equivalent or higher level than the employee's manager.	2011	GAO-12-683R	X
	<p>Action taken: In December 2014, IRS revised its standard operating procedures to require that the designated proxy approving the electronic time cards in IRS's time and attendance system be at an equivalent or higher level than the manager. During our April 2015 observation of IRS's proxy designation process, we verified that IRS implemented an automated edit control restricting the designation of</p>				

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	proxies for signing time and attendance records to only equivalent or higher-level managers. IRS's actions sufficiently address our recommendation.				
7 13-11	Establish and implement written policies and procedures that require the agency to record obligation of funds when a contract agreement is entered into and prior to taking delivery of goods or services. Action taken: In August 2015, IRS issued Internal Revenue Manual 1.35.24, Financial Accounting, <i>Establishing Commitments and Obligations</i> , which contains language requiring IRS to record the obligation of funds prior to taking delivery of goods or services. As this policy was established near the end of fiscal year 2015, we will evaluate implementation during our fiscal year 2016 audit.	2012	GAO-13-420R		X
8 14-06	Update the Internal Revenue Manual (IRM) to require monitoring the functions of all staff as they relate to receipt and acceptance functions, including applicable end users. Action taken: In July 2015, IRS updated IRM 1.35.3, Financial Accounting, <i>Receipt and Acceptance Guidelines</i> , to require monitoring of the receipt and acceptance functions of all staff, including applicable end users. The IRM defines responsibilities for the Director of the Beckley Finance Center and the Director of the Office of Procurement, as well as all business units. IRS's actions sufficiently address our recommendation.	2013	GAO-14-433R	X	
9 14-07	Establish and implement written procedures for the Office of Procurement to monitor the receipt and acceptance functions of all staff who perform receipt and acceptance. Such monitoring should include reviewing the accuracy and timeliness of receipt and acceptance dates and amounts. Action taken: In June 2015, IRS issued Policy and Procedures Memorandum No. 46.5(A), <i>Receipt and/or Acceptance (R &/or A) Monitoring Plan</i> , which establishes a process by which receipt and/or acceptance will be monitored. IRS implemented procedures that require (1) the Beckley Finance Center to perform quarterly audits of receipt and acceptance functions, including a review of the accuracy and timeliness of receipt and acceptance dates, and (2) the Policy and Procedures Branch to review the quarterly audit results to determine if further monitoring or action is necessary. IRS's actions sufficiently address our recommendation.	2013	GAO-14-433R	X	
10 14-08	Enhance existing mandatory training for all employees who are granted Integrated Procurement System (IPS) access to perform receipt and acceptance to include specific instructions for determining the appropriate dates and amounts to enter for receipt and acceptance in IPS.	2013	GAO-14-433R	X	

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	<p>Action taken: In April 2015, IRS enhanced its mandatory training for all employees who are granted IPS access to include specific instructions for determining appropriate dates and amounts to enter for receipt and acceptance into IPS. IRS also enhanced its Receipt and Acceptance Training user tool, which is available to employees on the IRS intranet. IRS's actions sufficiently address our recommendation.</p>				
11	14-13	2013	GAO-14-433R	X	
	<p>Action taken: In December 2014, IRS established procedures to annually identify, research, and correct potential duplicate installment agreement user fees charged to taxpayers. We verified during our fiscal year 2015 audit that IRS effectively implemented these procedures. IRS's actions sufficiently address our recommendation.</p>				
Property and equipment					
12	14-10	2013	GAO-14-433R	X	
	<p>Update the Enterprise Operations unit (EOps) policies and procedures as necessary, which may include providing requisite permissions to certain EOps staff to enable them to directly update the Knowledge, Incident/Problem, Service Asset Management (KISAM), to reasonably assure that assets received are recorded in the asset management systems within 10 workdays as required by the Internal Revenue Manual (IRM).</p> <p>Action taken: In August 2014, IRS's Information Technology organization updated its policies and procedures to allow EOps inventory staff to directly update the KISAM system to record assets received in the asset management systems within 10 workdays as required by the IRM. IRS's actions sufficiently address our recommendation.</p>				
13	15-09	2014	GAO-15-480R	X	
	<p>Establish and implement detailed written procedures for properly determining whether internal use software (IUS) costs should be capitalized or expensed. The procedures should include steps for obtaining the complete documentation required to determine the project phase to which a cost was attributable, specifically for cases in which the invoice, Statement of Work, and internal work-in-process schedule do not provide sufficient information.</p> <p>Action taken: In fiscal year 2015, IRS developed and implemented written procedures to determine whether IUS costs should be capitalized or expensed in accordance with Statement of Federal Financial Accounting Standards No. 10, <i>Accounting for Internal Use Software</i>. The procedures included steps for</p>				

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	obtaining supporting documentation (e.g., communications with project managers, status reports/memos) to determine the project phase to which a cost was attributable, specifically for cases in which the invoice, Statement of Work, and internal work-in-process schedule do not provide sufficient information. In addition, based on our fiscal year 2015 IUS acquisition testing, we noted that IRS had implemented these procedures. IRS's actions sufficiently address our recommendation.				
14	15-10	2014	GAO-15-480R		X
	Establish and implement written procedures to reasonably assure that assets that are reclassified during the voucher review process are properly added to the Knowledge, Incident/Problem, Service Asset Management (KISAM) or the Criminal Investigation Management Information System (CIMIS) for tracking purposes, as applicable.				
	Action taken: In fiscal year 2015, IRS revised the <i>Property, Plant, and Equipment Workpaper Procedure Outline</i> to require the Financial Reporting (FR) office to notify the appropriate KISAM or CIMIS personnel of transactions reclassified from expense to asset accounts during its voucher review process that should be input into the KISAM system or CIMIS. In addition, IRS's Information Technology organization updated its standard operating procedures to require that assets reclassified during the FR office's voucher review process be added to or updated in the KISAM system. Further, IRS's Criminal Investigation organization revised Internal Revenue Manual 9.11.3.4.1, <i>Responsibilities for Equipment</i> , to require that assets reclassified during the FR office's voucher review process be added to or updated in CIMIS. However, these procedures were revised after our fiscal year 2015 internal control testing. We will assess IRS's implementation of these revised procedures during our fiscal year 2016 audit.				
15	15-11	2014	GAO-15-480R		X
	Update the Hardware Asset Management Standard Operating Procedure to include a requirement for periodic supervisory review to provide reasonable assurance that certain asset acquisitions are properly entered into the Knowledge, Incident/Problem, Service Asset Management (KISAM).				
	Action taken: In fiscal year 2015, IRS's Information Technology organization updated its IRS Feed Review Standard Operating Procedure to include quarterly supervisory reviews to reasonably assure that asset acquisitions are properly entered into the KISAM system. However, our fiscal year 2015 testing of asset acquisitions included assets acquired prior to IRS updating these procedures and therefore these assets did not have evidence of supervisory review. We will assess whether IRS has effectively implemented this supervisory review during our fiscal year 2016 audit.				
Refunds					
16	14-14	2013	GAO-14-433R		X
	Update the training manuals and related training				

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	provided to Submission Processing examiners to ensure that the examiners are provided proper guidance for correctly processing refund claims associated with deceased taxpayers. Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that it will update the fiscal year 2016 training manuals and related annual mandatory training provided to Submission Processing examiners to include the proper guidance for processing refund claims associated with deceased taxpayers. We will evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.				
17	14-15	2013	GAO-14-433R		X
	Establish and implement policies and procedures requiring a review process to reasonably assure that the accounts related to deceased taxpayers are only reopened for valid refunds. Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that it has put corrective actions in place to reduce the risk of issuing erroneous refunds to accounts related to deceased taxpayers. However, during our fiscal year 2015 audit, we continued to find instances in which IRS employees reopened deceased taxpayer accounts and disbursed invalid refunds. As a result, we will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.				
18	14-16	2013	GAO-14-433R		X
	Establish and implement policies and procedures that require monitoring to reasonably assure that accounts related to deceased taxpayers that have been reopened are timely closed after processing the refund. Action taken: IRS's efforts to address this recommendation are ongoing. In September 2014, IRS established procedures to require employees who reopen deceased taxpayer accounts to monitor and close the deceased taxpayer accounts after the required transactions post. However, during our fiscal year 2015 audit, we found instances in which IRS employees did not monitor reopened deceased taxpayer accounts to reasonably assure that the accounts were timely closed after processing the refunds. IRS stated that in fiscal year 2016, it will implement an automated process, which will run twice during the year, to identify deceased taxpayer accounts that have been reopened and properly close them. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.				
19	14-17	2013	GAO-14-433R	X	
	Issue a memorandum to IRS staff reminding them of the requirements and the procedures to follow to ensure that a representative is listed on a deceased taxpayer's account before issuing a refund on the account.				

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	Action taken: In March 2015, IRS issued a memorandum reminding IRS staff of the requirements and the procedures to follow to ensure that a representative is listed on a deceased taxpayer's account before issuing a refund on the account. IRS's action sufficiently addresses our recommendation.				
Revenue					
20	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.	2005	GAO-06-543R	X
	Action taken: IRS's efforts to address this recommendation are ongoing. As of November 2015, IRS has 376 TACs in operation and stated that 68 have not been built to the "new TAC" model. According to IRS, of these 68 TAC locations, 64 have mitigating controls to deter and prevent unauthorized access to restricted areas, while the remaining 4 do not have existing mitigating controls. IRS stated that it has planned corrective actions for the remaining 4 TACs, which will be implemented during 2016. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.				
21	09-09	Establish procedures requiring that each physical security analyst conduct a periodic documented review of the Emergency Signal History Report and emergency contact list for its respective location to ensure that (1) appropriate corrective actions have been planned for all incidents reported by the central monitoring station and (2) the emergency contact list for each location is current and includes only appropriate contacts.	2008	GAO-09-513R	X
	Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that by May 2016 it will revise the Internal Revenue Manual in an effort to ensure that (1) appropriate corrective actions have been planned for all incidents reported by the central monitoring station and (2) the emergency contact list for each location is current and includes only appropriate contacts. IRS also stated that it plans to conduct security training in fiscal year 2016 for specialists, highlighting existing alarm testing control measures and policy guidance and updates, and will include instructions on populating the emergency contact list. We will continue to evaluate IRS's corrective actions during our fiscal year 2016 audit.				
22	10-20	Establish procedures to monitor the process used by service center campuses (SCC) and lockbox banks to acknowledge and track transmittals of	2009	GAO-10-565R	X

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	<p>unprocessable items with receipts. These procedures should include monitoring discrepancies and instituting appropriate corrective actions as needed.</p> <p>Action taken: In 2014, IRS revised the data collection instrument and instructions used in its unannounced reviews of SCCs and lockbox banks to include instructions for the reviewer to address the timely acknowledgment of Lockbox Document Transmittal (LDT) forms, which are used to transmit unprocessable items with receipts. IRS stated that it will continue to enforce the LDT requirements by conducting internal control quality reviews at lockbox sites and following up on the results. Also, IRS stated that it performs monthly managerial reviews to reasonably assure that transmittals are acknowledged and tracked and appropriate actions are taken for any discrepancies noted. In addition, IRS enhanced its safeguards for shipping unprocessable items with receipts by requiring the use of tamper-resistant bags. IRS's actions sufficiently address our recommendation.</p>				
23 11-11	<p>Perform a review of all existing contracts under \$100,000 that (1) do not have an appointed contracting officer's technical representative and (2) do not require that contract employees obtain background investigations to assess whether the services performed under each contract warrant a requirement that contract employees obtain background investigations.</p> <p>Action taken: IRS's efforts to address this recommendation are ongoing. According to IRS, it has completed its contract review and made appropriate modifications as of September 2015. Additionally, IRS stated that during fiscal year 2016, it will complete its review of interagency agreements to assess whether the services performed under each warrant a requirement that the contract employees obtain background investigations. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.</p>	2010	GAO-11-494R		X
24 11-12	<p>Based on a review of all existing contracts under \$100,000 without an appointed contracting officer's technical representative that should require contract employees to obtain favorable background investigation results, amend those contracts to require that favorable background investigations be obtained for all relevant contract employees before routine, unescorted, unsupervised physical access to taxpayer information is granted.</p> <p>Action taken: IRS's efforts to address this recommendation are ongoing. According to IRS, it has completed its contract review and made appropriate modifications as of September 2015. Additionally, IRS stated that during fiscal year 2016, it will (1) complete its review of interagency agreements to assess whether the services performed under each warrant a</p>	2010	GAO-11-494R		X

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	requirement that the contract employees obtain background investigations and (2) modify the interagency agreements as appropriate. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.				
25 11-13	<p>Establish a policy requiring collaborative oversight between IRS's key offices in determining whether potential service contracts involve routine, unescorted, unsupervised physical access to taxpayer information, thus requiring background investigations, regardless of contract award amount. This policy should include a process for the requiring business unit to communicate to the Office of Procurement and the Human Capital Office the services to be provided under the contract and any potential exposure of taxpayer information to contract employees providing the services, and for all three units to (1) evaluate the risk of exposure of taxpayer information prior to finalizing and awarding the contract and (2) ensure that the final contract requires favorable background investigations as applicable, commensurate with the assessed risk.</p> <p>Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that by June 2016, several internal organizations will partner to identify the remaining actions and time frames necessary to refine the Internal Revenue Manual policies and procedures to ensure that (1) oversight between IRS's key offices is conducted to determine whether potential service awards (purchase orders, delivery orders, contracts, interagency agreements, reimbursable work authorizations, security work authorizations, occupancy agreements, etc.) entered into by IRS involve routine, unescorted, unsupervised physical access to taxpayer information by contractors, thus requiring background investigations, and (2) the resulting processes are clear on whose responsibility it is to complete the various steps, as well as who must maintain documentation of the approved access determination prior to the contractor being allowed to provide the services. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.</p>	2010	GAO-11-494R		X
26 11-14	<p>Establish procedures to provide a consistent methodology for calculating and establishing allowable deposit courier trip time limits to be used by both service center campuses (SCC) and lockbox banks that would assist in detecting potential unauthorized stops or other contractual violations for deposit couriers. Such procedures should include instructions for documenting and supporting how the trip limits were determined and require justification and approval for all established time limits that exceed the average trip time.</p> <p>Action taken: For SCCs, IRS established a consistent methodology for calculating and establishing allowable</p>	2010	GAO-11-494R	X	

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	deposit courier trip time limits. In addition, IRS performs surveillance of the couriers at least annually as part of its unannounced security reviews to monitor and detect potential unauthorized stops or other contractual violations. For lockbox banks, IRS updated the methodology for determining allowable deposit courier trip times and requires, at minimum, a quarterly observation of couriers transporting IRS lockbox deposits or taxpayer information. IRS's actions sufficiently address our recommendation.				
27 11-24	<p>Revise the post orders for the service center campuses (SCC) and lockbox bank security guards to include specific procedures for timely reporting exterior lighting outages to SCC or lockbox bank facilities management. These procedures should specify (1) whom to contact to report lighting outages and (2) how to document and track lighting outages until resolved.</p> <p>Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that by June 2016, it would engage in discussions with personnel from the Federal Protective Services (FPS) and General Services Administration (GSA) regarding the responsibility for facilities and security services relating to lighting outages. According to IRS, Facilities Management and Security Services local security offices will require that FPS and GSA initiate procedures for corrective actions regarding lighting outages and include those procedures in guard post orders. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.</p>	2010	GAO-11-494R		X
28 12-10	<p>Update the Internal Revenue Manual to specify steps to be followed to prevent campus support clerks as well as any other employees who process payments through the electronic check presentment system from making adjustments to taxpayer accounts.</p> <p>Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that by April 2016 it would reassess the risks at its taxpayer assistance centers, including the specific risks and mitigating factors associated with allowing individual taxpayer advisory specialists to process taxpayer remittances through the electronic check presentment system and to adjust taxpayer accounts. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.</p>	2011	GAO-12-683R		X
29 13-05	<p>Perform a risk assessment to determine the appropriate level of Integrated Data Retrieval System (IDRS) access that should be granted to employee groups that handle hard-copy taxpayer receipts and related sensitive taxpayer information as part of their job responsibilities.</p> <p>Action taken: IRS's efforts to address this recommendation are ongoing. As a result of its risk</p>	2012	GAO-13-420R		X

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	assessment efforts thus far, IRS updated the Internal Revenue Manual to restrict the use of certain IDRS command codes for remittance perfection technicians. IRS stated that by April 2016 it would reassess the risks at its taxpayer assistance centers, including the specific risks and mitigating factors associated with allowing individual taxpayer advisory specialists to process taxpayer remittances through the electronic check presentment system and to adjust taxpayer accounts. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.				
30 13-06	Based on the results of the risk assessment, update the Internal Revenue Manual (IRM) accordingly to specify the appropriate level of Integrated Data Retrieval System (IDRS) access that should be allowed for (1) remittance perfection technicians and (2) all other employee groups with IDRS access that handle hard-copy taxpayer receipts and related sensitive information as part of their job responsibilities. Action taken: IRS's efforts to address this recommendation are ongoing. As a result of its risk assessment efforts thus far, IRS updated the IRM to restrict the use of certain IDRS command codes for remittance perfection technicians. IRS stated that by April 2016 it would reassess the risks at its taxpayer assistance centers, including the specific risks and mitigating factors associated with allowing individual taxpayer advisory specialists to process taxpayer remittances through the electronic check presentment system to adjust taxpayer accounts. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.	2012	GAO-13-420R		X
31 13-07	Establish procedures to implement the updated Internal Revenue Manual (IRM), including required steps to follow to prevent (1) remittance perfection technicians and (2) all other employee groups that handle hard-copy taxpayer receipts and related sensitive information as part of their job responsibilities from gaining access to command codes not required as part of their designated job duties. Action taken: IRS's efforts to address this recommendation are ongoing. As a result of its risk assessment efforts thus far, IRS updated the IRM to restrict the use of certain Integrated Data Retrieval System command codes for remittance perfection technicians. IRS stated that by April 2016 it would reassess the risks at its taxpayer assistance centers, including the specific risks and mitigating factors associated with allowing individual taxpayer advisory specialists to process taxpayer remittances through the electronic check presentment system and to adjust taxpayer accounts. We will continue to evaluate IRS's actions to address this recommendation during our	2012	GAO-13-420R		X

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	fiscal year 2016 audit.				
32 15-03	Determine the reason(s) why taxpayer assistance center (TAC) managers and personnel did not consistently comply with existing Internal Revenue Manual (IRM) requirements that TAC managers and personnel (1) perform and document reviews of the Follow-Up Review Log by the last day of the following month, (2) maintain control copies of transmittal forms, and (3) ship taxpayer receipts and information via traceable overnight mail and, based on this determination, establish a process to better enforce compliance with these requirements. Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that it has taken steps to identify the reasons for noncompliance with the IRM requirements. However, IRS has not indicated whether it has determined the reasons or how any planned corrective actions are based on that determination. During our fiscal year 2015 audit, we continued to find instances of noncompliance with these IRM requirements. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.	2014	GAO-15-480R		X
33 15-04	Update the Internal Revenue Manual (IRM) to require managers to reconcile transmittal forms with the Follow-Up Review Log to reasonably assure that personnel are properly entering transmittal forms into the log and are appropriately documenting follow-up on unacknowledged transmittals of taxpayer receipts and information. Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that by April 2016, it will update the IRM to require taxpayer assistance center (TAC) managers to periodically reconcile the document transmittal forms to the associated Follow-Up Review Logs to monitor employee compliance with IRM requirements and document this reconciliation using a newly created form. IRS will also include questions on this new reconciliation in the TAC Security and Remittance Review Database, which is used to monitor each TAC's adherence to specific operational and security controls designed to collect, process, and safeguard taxpayer receipts and information. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.	2014	GAO-15-480R		X
34 15-05	Update the Internal Revenue Manual (IRM) to specify that unauthorized access awareness training requirements apply to non-IRS contractors who have unescorted physical access to IRS facilities. Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that by June 2016, it will update the IRM to specify that the unauthorized access awareness training requirement for contractors applies to both non-IRS contractors and	2014	GAO-15-480R		X

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	IRS contractors who have access to IRS facilities. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.				
35 15-06	Establish a process to ensure that the requirement for unauthorized access awareness training is explicitly communicated to non-IRS contractors who have unescorted access to IRS facilities. Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that by June 2016, it will partner with the Federal Protective Service and the General Services Administration to establish a process to ensure that the requirement for unauthorized access awareness training is explicitly communicated to non-IRS contractors who have unescorted physical access to IRS facilities. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.	2014	GAO-15-480R		X
36 15-07	Establish procedures to monitor whether non-IRS contractors with unescorted physical access to IRS facilities are receiving unauthorized access awareness training. Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that by June 2016, it will send out a communication to its Facilities Management and Security Services field offices that will include standard operating procedures for monitoring training and acquiring unauthorized access awareness training documentation for each non-IRS contract employee. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.	2014	GAO-15-480R		X
37 15-08	Determine the reasons why staff did not consistently comply with IRS's existing requirements for the final candling of receipts at service center campuses (SCC) and lockbox banks, including logging remittances found during final candling on the final candling log at the time of discovery, safeguarding the remittances at the time of discovery, transferring the remittances to the deposit unit promptly, and passing one envelope at a time over the light source, and based on this determination, establish a process to better enforce compliance with these requirements. Action taken: IRS's efforts to address this recommendation are ongoing. IRS stated that Submission Processing Headquarters staff met with staff at the SCCs during fiscal year 2015 to get feedback on the reasons for the inconsistent application of Internal Revenue Manual candling requirements and identified the need to strengthen the role of Submission Processing Headquarters in reviews of candling procedures. However, IRS has not indicated whether it has determined the reasons why staff did not consistently comply with existing requirements for final candling and thus has not yet	2014	GAO-15-480R		X

ID Number	Recommendation per audit area	Year initially reported	Source report	Status	
				Closed	Open
	established a process to better enforce compliance. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.				
Unpaid assessments					
38 08-06	In instances where computer programs that control penalty assessments are not functioning in accordance with the intent of the Internal Revenue Manual (IRM), take appropriate action to correct the programs so that they function in accordance with the IRM. Action taken: According to IRS, it had substantially completed its corrective actions to address 19 penalty programming issues it had identified from its internal assessment of penalty computation programs. However, as of September 30, 2015, IRS had not provided us with supporting documentation to validate that it completed the corrective actions. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.	2007	GAO-08-368R		X
39 10-03	Research and identify control weaknesses resulting in inaccuracies or errors in taxpayer accounts that materially affect the financial reporting of unpaid tax assessments. Action taken: In fiscal year 2015, IRS developed a long-term action plan to address the unpaid assessments material weakness. This plan identifies and documents (1) the specific system and control deficiencies that result in errors in taxpayer accounts and inaccurate classification of unpaid assessments amounts, (2) the actions IRS needs to take to address each related deficiency, and (3) the IRS organizational units that need to be involved in the actions. IRS's actions sufficiently address our recommendation.	2009	GAO-10-565R	X	
40 10-04	Once IRS identifies the control weaknesses that result in inaccuracies or errors that materially affect the financial reporting of unpaid tax assessments, implement control procedures to routinely prevent, or to detect and correct, such errors. Action taken: In fiscal year 2015, IRS developed a long-term action plan to address the unpaid assessments material weakness, which identifies and documents (1) the specific system and control deficiencies that result in errors in taxpayer accounts and inaccurate classification of unpaid assessments amounts, (2) the actions IRS needs to take to address each related deficiency, and (3) the IRS organizational units that need to be involved in the actions. However, IRS has not documented milestones or target completion dates for most of the actions in this plan. Additionally, during fiscal year 2015, we and IRS continued to identify misclassified unpaid assessments that resulted from inaccuracies or errors in taxpayer accounts. Thus, IRS's actions are ongoing. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2016 audit.	2009	GAO-10-565R		X

ID	Number	Recommendation per audit area	Year initially reported	Source report	Status	
					Closed	Open
41	15-01	<p>Include all key elements as recommended by the Office of Management and Budget Circular No. A-123 implementation guide in IRS's corrective action plan to adequately address the control deficiencies in its systems that are contributing to the material weakness in unpaid tax assessments.</p> <p>Action taken: In fiscal year 2015, IRS developed a long-term action plan to address the unpaid assessments material weakness. This plan identifies and documents (1) the specific system and control deficiencies that result in errors in taxpayer accounts and inaccurate classification of unpaid assessments amounts, (2) the actions IRS needs to take to address each related deficiency, and (3) the IRS organizational units that need to be involved in the actions. IRS's actions sufficiently address our recommendation.</p>	2014	GAO-15-480R	X	
42	15-02	<p>Develop and implement agency-wide procedures to routinely monitor the accuracy of penalties recorded in taxpayer accounts to timely detect and correct errors.</p> <p>Action taken: According to IRS, during fiscal year 2015, it selected and tested a sample of taxpayer accounts to evaluate the accuracy of penalty assessments recorded in these accounts and took action to address the deficiencies it identified. IRS also informed us that it documented its procedures for performing this type of review, that it plans to implement these procedures to routinely test the accuracy of penalty assessments in taxpayer accounts semiannually, and will formalize these procedures in the Internal Revenue Manual (IRM). However, as of September 30, 2015, IRS had not updated the IRM to include these procedures or implemented the routine testing of penalty assessments on taxpayer accounts. Thus, IRS's actions are ongoing. We will continue to evaluate IRS's actions to address this recommendation during fiscal year 2016 audit.</p>	2014	GAO-15-480R		X

Source: GAO. | GAO-16-457R

Enclosure II: Comments from the Internal Revenue Service



COMMISSIONER

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

May 5, 2016

Ms. Cheryl E. Clark
Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Clark:

I am writing in response to the Government Accountability Office (GAO) draft report titled *Management Report: Improvements Are Needed to Enhance the IRS's Internal Control over Financial Reporting (GAO-16-457R)*. We are pleased that GAO acknowledged our progress in addressing our financial management challenges and agreed to close 17 prior year financial management recommendations. We continue to make significant progress in addressing internal control deficiencies and financial management as evidenced by 16 consecutive years of clean audit opinions on our financial statements.

During fiscal year 2015, IRS strengthened its processes and controls over service organizations, timecards, receipt and acceptance, installment agreement user fees, courier trips, unpaid assessments, and transmittals of unprocessable items with receipts, allowing for the closure of several older recommendations. The enclosed response addresses each of your new recommendations, all of which we accept.

We are committed to implementing appropriate improvements to ensure that the IRS maintains sound financial management practices. If you have any questions, please contact me, or a member of your staff may contact Ursula Gillis, Chief Financial Officer, at (202) 317-6400.

Sincerely,

A handwritten signature in blue ink, appearing to read "John A. Koskinen".

John A. Koskinen

Enclosure

Enclosure

**GAO Recommendations and IRS Responses to
GAO FY 2015 Management Report
“Improvements Are Needed to Enhance the Internal Revenue Service’s
Internal Control over Financial Reporting”
GAO-16-457R**

Recommendation #1: We recommend that the IRS Commissioner direct the appropriate IRS officials to establish and implement formal policies and procedures to annually review unpaid tax assessments that are manually classified to determine whether the classification is correct for the current fiscal year.

Comments: The IRS agrees with this recommendation. By July 2016, the Chief Financial Officer (CFO) organization will establish and implement formal policies and procedures to annually review unpaid tax assessments that are manually classified to determine whether the classification is correct for the current fiscal year.

Recommendation #2: We recommend that the IRS Commissioner direct the appropriate IRS officials to establish a process to prevent Employment Operations staff from allowing potential employees to enter on duty without an approved adjudication determination.

Comments: The IRS agrees with this recommendation and considers it closed. In December 2015, the Human Capital Office (HCO) organization strengthened its procedures by revising and reissuing *Employment Operations Alerts 300-31, Completion of Pre-Hire Screening Checks*, to improve the monitoring of Employment Office decisions to reasonably assure that new employees do not enter on duty before prescreening adjudications are completed and approved by the Personnel Security office.

Recommendation #3: We recommend that the IRS Commissioner direct the appropriate IRS officials to establish a policy and procedures requiring IRS officials to review and address situations in which it is later discovered that an employee deemed unsuitable for employment during the prescreening process was erroneously allowed to enter on duty.

Comments: The IRS agrees with this recommendation and considers it closed. In October 2015, the HCO organization established a policy and implemented *Procedures for Addressing Erroneous EODs*, that outlines the steps that should be taken if it is later discovered that an employee who was hired was deemed unsuitable for employment during the prescreening process.

Recommendation #4: We recommend that the IRS Commissioner direct the appropriate IRS officials to develop and provide training, on a recurring basis, to all Facilities Management and Security Services specialists and managers involved in the duress alarm validation and testing process to reinforce the related policies and procedures.

Comments: The IRS agrees with this recommendation and considers it closed. In April 2016, the Agency-Wide Shared Services (AWSS) organization notified all Facilities Management and Security Services (FMSS) Security Specialists and managers involved in the duress alarm validation and testing process that they are required to take annual refresher training to reinforce the related policies and procedures. As of February 2016, the AWSS organization developed and provided training on duress alarm validation and testing to FMSS Security Specialists and managers.

Recommendation #5: We recommend that the IRS Commissioner direct the appropriate IRS officials to develop job aids that provide detailed written guidance for TAC (1) group managers for use in answering TSRRD review questions effectively, and (2) territory managers that explicitly outline the requirements for reviewing TSRRD submissions.

Comments: The IRS agrees with this recommendation. By September 2016, the Wage and Investment (W&I) organization will develop a job aid that provides specific written guidance for Taxpayer Assistance Center (TAC) group managers for use in answering TAC Security and Remittance Review Database (TSRRD) review questions and outlines the territory managers' requirements for reviewing TSRRD submissions.

Recommendation #6: We recommend that the IRS Commissioner direct the appropriate IRS officials to establish and implement a policy requiring recurring training for TAC group and territory managers on their TSRRD responsibilities, including detailed instructions for completing responses to questions in TSRRD and for reviewing TSRRD submissions for accuracy and completeness. This training should be updated for changes in TSRRD questions over time and be provided to new TAC group and territory managers soon after they are hired or appointed.

Comments: The IRS agrees with this recommendation. By September 2016, the W&I organization will establish and implement a policy requiring training for TAC group and territory managers on their TSRRD responsibilities, including specific instructions for completing questions in TSRRD and for reviewing TSRRD submissions. This training will be provided on a recurring basis to account for changes in TSRRD questions and newly hired or appointed TAC group and territory managers.

Recommendation #7: We recommend that the IRS Commissioner direct the appropriate IRS officials to determine the reason(s) why staff did not always comply with IRS's established policies and procedures related to initiating, monitoring, and reviewing

the monitoring of manual refunds; and based on this determination, establish a process to better enforce compliance with these requirements.

Comments: The IRS agrees with this recommendation.

- By September 2016, the W&I organization will determine the reasons for staff non-compliance with established policies and procedures related to initiating, monitoring, and reviewing the monitoring of manual refunds, and based on this evaluation, establish a process to better enforce compliance with these requirements.
- By September 2016, the Taxpayer Advocate Service organization will determine the reasons for staff non-compliance with established policies and procedures related to initiating, monitoring, and reviewing the monitoring of manual refunds, and based on this evaluation, establish a process to better enforce compliance with these requirements.

Recommendation #8: We recommend that the IRS Commissioner direct the appropriate IRS officials to enhance the training program provided to COs to address all the job responsibilities related to the certification of manual refunds for payment, including the required review of supporting documentation for manual refunds.

Comments: The IRS agrees with this recommendation and considers it closed. In March 2016, W&I organization Certifying Officers (COs) were given a refresher course as part of annual training to address all of the job responsibilities related to the certification of manual refunds for payment.

Recommendation #9: We recommend that the IRS Commissioner direct the appropriate IRS officials to issue a written reminder to quality review units responsible for reviewing the work of ICO tax examiners reiterating the existing quality review requirement to select and review cases, on a weekly basis, worked by each ICO tax examiner.

Comments: The IRS agrees with this recommendation and considers it closed. In March 2016, the W&I organization issued a written reminder to the appropriate employees responsible for reviewing the work of Input Corrections Operation (ICO) tax examiners reiterating the existing quality review requirements and Internal Revenue Manual procedures, including selection and review of cases on a weekly basis. The reminder will be reissued on a periodic basis, as needed.

Recommendation #10: We recommend that the IRS Commissioner direct the appropriate IRS officials to identify the cause of and implement a solution for dealing with the periodic backlogs of ICO inventory that is hampering the performance of quality reviews.

Comments: The IRS agrees with this recommendation. By July 2016, the W&I organization will identify the cause of, and implement a solution for dealing with, the periodic backlogs of ICO inventory.

Recommendation #11: We recommend that the IRS Commissioner direct the appropriate IRS officials to establish policies for (1) how long an asset can remain in missing status before it is removed from P&E reported on the financial statements, and (2) how long assets can go unverified during the annual inventory process before they are identified as missing in the property management system.

Comments: The IRS agrees with this recommendation.

- By October 2016, the CFO organization will establish policies for how long an asset can remain in missing status before it is removed from the Property & Equipment (P&E) figures reported on the financial statements.
- By October 2016, the Information Technology (IT) organization will establish a policy to identify the length of time a Class A or Class B asset may remain unverified before it is identified as a missing asset in the property management system (KISAM).

Recommendation #12: We recommend that the IRS Commissioner direct the appropriate IRS officials to establish and implement procedures to reasonably assure that missing assets are timely removed from the financial statements when applicable.

Comments: The IRS agrees with this recommendation. By October 2016, the CFO organization will establish and implement procedures to reasonably assure that missing assets are timely removed from the financial statements when applicable.

Recommendation #13: We recommend that the IRS Commissioner direct the appropriate officials to establish and implement monitoring procedures designed to reasonably assure that the key detailed information for tangible capitalized P&E is properly recorded and updated in the KISAM system.

Comments: The IRS agrees with this recommendation.

- By October 2016, the IT organization will establish and implement monitoring procedures to reasonably assure that key data elements for tangible capitalized P&E are accurately recorded and updated in the KISAM Asset Manager system.
- By October 2016, the AWSS organization will revise and communicate revisions to its monitoring procedures to reasonably assure that key data elements for tangible capitalized P&E are accurately recorded and updated in the KISAM Asset Manager system.

Recommendation #14: We recommend that the IRS Commissioner direct the appropriate officials to design a process to reasonably assure the adequacy of detailed supporting information for tangible P&E amounts recorded in the general ledger.

Comments: The IRS agrees with this recommendation. By April 2017, the CFO organization will implement a P&E subsidiary ledger, and also design and implement processes based on the P&E subsidiary ledger, that will reasonably assure the adequacy of detailed supporting information for tangible P&E amounts recorded in the general ledger.

Recommendation #15: We recommend that you direct the appropriate IRS officials to update IRS policies and procedures for managerial reviews of disposal activities to explicitly instruct managers to assess whether disposal actions are approved by those authorized to do so and that approval is obtained prior to the disposal of assets.

Comments: The IRS agrees with this recommendation. By September 2016, the AWSS organization will update IRS policies and procedures for managerial reviews of disposal activities to explicitly instruct managers to assess whether disposal actions are approved by those authorized to do so and that approval is obtained prior to the disposal of assets.

Recommendation #16: We recommend that the IRS Commissioner direct the appropriate IRS officials to establish and implement detailed written procedures for calculating future lease payments for noncancelable operating leases that are reported in the notes to the financial statements. The procedures should include steps for (1) considering any ad hoc clauses that may have specific termination dates and (2) include a requirement for supervisory review to provide reasonable assurance of the accuracy of future lease payment amounts for noncancelable operating leases.

Comments: The IRS agrees with this recommendation. By July 2016, the CFO organization will establish and implement detailed written procedures for calculating future lease payments for noncancelable operating leases that are reported in the notes to the financial statements. The procedures will include steps for (1) considering any ad-hoc clauses that may have specific termination dates and (2) include a requirement for supervisory review to provide reasonable assurance of the accuracy of future lease payment amounts for noncancelable operating leases.

Recommendation #17: We recommend that the IRS Commissioner direct the appropriate IRS officials to update IRS's accounting code guide for payroll adjustments to include detailed steps for human resources specialists to verify that submitted payroll adjustments processed by NFC are processed correctly by NFC, including against the correct pay period and fiscal year.

Comments: The IRS agrees with this recommendation and considers it closed. In March 2016, the AWSS organization updated the Accounting Code Guide for Payroll Adjustments, to include detailed steps for human resources specialists to verify that submitted payroll adjustments processed by the National Finance Center (NFC) are processed correctly by NFC, including against the correct pay period and fiscal year.

Enclosure III: GAO Contact and Staff Acknowledgments

GAO Contact

Cheryl E. Clark, (202) 512-9377 or clarkce@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following individuals made major contributions to this report: Christopher Spain (Assistant Director), Tulsi Bhojwani, Liliam Coronado, Nina Crocker, William (Lee) Evans, Richard Guthrie, Robert Hildebrandt, Ted Hu, Tyrone Hutchins, Judy Lee, Robert Mabasa, Seong (Bin) Park, John Sawyer, Kevin Scott, Elizabeth Sodipo, Eric Stalcup, Sunny Stanley, Vanessa Taja, LaDonna Towler, Cherry Vasquez, and Yi (William) Ye.

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (<http://www.gao.gov>). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to <http://www.gao.gov> and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#). Subscribe to our [RSS Feeds](#) or [E-mail Updates](#). Listen to our [Podcasts](#). Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: <http://www.gao.gov/fraudnet/fraudnet.htm>

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800, U.S. Government Accountability Office, 441 G Street NW, Room 7149, Washington, DC 20548



Please Print on Recycled Paper.