



Highlights of [GAO-06-560](#), a report to the Commissioner of Internal Revenue

Why GAO Did This Study

In its role as the nation's tax collector, the Internal Revenue Service (IRS) has a demanding responsibility in annually collecting over \$2 trillion in taxes, processing hundreds of millions of tax and information returns, and enforcing the nation's tax laws. Since its first audit of IRS's financial statements in fiscal year 1992, GAO has identified a number of weaknesses in IRS's financial management operations. In related reports, GAO has recommended corrective action to address those weaknesses.

Each year, as part of the annual audit of IRS's financial statements, GAO not only makes recommendations to address any new weaknesses identified but also follows up on the status of weaknesses GAO identified in previous years' audits. The purpose of this report is to (1) assist IRS management in tracking the status of audit recommendations and actions needed to fully address them and (2) demonstrate how the recommendations fit into IRS's overall management and internal control structure.

www.gao.gov/cgi-bin/getrpt?GAO-06-560.

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

INTERNAL REVENUE SERVICE

Status of Recommendations from Financial Audits and Related Financial Management Reports

What GAO Found

IRS has made significant progress in improving its internal controls and financial management since its first financial audit in 1992, as evidenced by 6 consecutive years of clean audit opinions on its financial statements, the resolution of several material internal control weaknesses, and the closing of over 200 financial management recommendations. This progress has been the result of hard work and commitment at the top levels of the agency.

However, IRS still faces financial management challenges. At the beginning of GAO's audit of IRS's fiscal year 2005 financial statements, 84 financial management-related recommendations from prior audits remained open because IRS had not fully addressed the issues that gave rise to them. During the fiscal year 2005 financial audit, IRS took actions that enabled GAO to close 34 of those recommendations. At the same time, GAO identified additional internal control deficiencies resulting in 22 new recommendations. In total, 72 recommendations currently remain open.

To assist IRS in evaluating its internal controls and in making improvements, GAO categorized the 72 open recommendations by various internal control activities which, in turn, were grouped into three broad control activity groupings.

Summary of Open Recommendations

Control activity group	Open in 2005	Closed during 2005 audit	New from 2005 audit	Total open for 2006
Safeguarding of assets and security activities	33	13	9	29
Proper recording and documenting of transactions	30	13	9	26
Effective management review and oversight	21	8	4	17
Total	84	34	22	72

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

The continued existence of internal control weaknesses that gave rise to these recommendations represents a serious obstacle that IRS needs to overcome. Effective implementation of GAO's recommendations can greatly assist IRS in improving its internal controls and achieving sound financial management. IRS stated that it is taking action to address the recommendations included in the report. GAO will review the effectiveness of these corrective actions and the status of IRS's progress as part of the fiscal year 2006 audit.