



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

May 7, 2018

The Honorable David J. Kautter  
Acting Commissioner of Internal Revenue

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

Dear Mr. Kautter:

On November 9, 2017, we issued our report on our audit of the Internal Revenue Service's (IRS) fiscal years 2017 and 2016 financial statements,<sup>1</sup> which included our opinion that IRS's internal control over financial reporting was not effective as of September 30, 2017, because of a continuing material weakness in internal control over unpaid assessments.<sup>2</sup> The purpose of this report is to present two new control deficiencies that we identified during our fiscal year 2017 testing of IRS's controls and our recommendations related to these deficiencies.<sup>3</sup> This report also presents the status, as of September 30, 2017, of IRS's corrective actions to address our recommendations detailed in our previous management reports that remained open as of September 30, 2016.<sup>4</sup> This report is intended for use by IRS management.

**Results in Brief**

During our audit of IRS's fiscal years 2017 and 2016 financial statements, we identified a new control deficiency involving the timely correction and posting of tax transactions to taxpayer accounts that contributed to IRS's continuing material weakness in internal control over unpaid assessments as of September 30, 2017.<sup>5</sup> We also identified a new deficiency related to the monitoring of internal control activities for safeguarding taxpayer receipts and associated

<sup>1</sup>GAO, *Financial Audit: IRS's Fiscal Years 2017 and 2016 Financial Statements*, [GAO-18-165](#) (Washington, D.C.: Nov. 9, 2017).

<sup>2</sup>An unpaid 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 assessment has been reduced by IRS). Internal Revenue Manual (IRM) § 1.34.1.2 (138), *Definitions and Acronyms* (June 23, 2009).

<sup>3</sup>In addition to the internal control deficiencies included in this report, we plan to issue a separate report on the information systems control deficiencies identified during our fiscal year 2017 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, 2017, along with associated new recommendations for corrective actions. This report will also include the status of IRS's actions to address the open recommendations related to information systems control deficiencies from prior audits.

<sup>4</sup>GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting*, [GAO-17-454R](#) (Washington, D.C.: May 17, 2017).

<sup>5</sup>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. A 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.

information. Although not considered material weaknesses or significant deficiencies, these new deficiencies nonetheless warrant IRS management's attention.<sup>6</sup>

In this report, we are making 2 recommendations to address the control deficiency that contributed to IRS's continuing material weakness in internal control over unpaid assessments and 3 recommendations to address the control deficiency related to monitoring of internal control activities for safeguarding hard copy taxpayer receipts and associated information, for a total of 5 new recommendations. These recommendations are intended to improve IRS's internal controls over financial reporting as well as to bring IRS into conformance with its own policies and *Standards for Internal Control in the Federal Government*.<sup>7</sup>

As of September 30, 2017, IRS had completed corrective action on 14 of the 41 recommendations from our prior financial audits that remained open as of September 30, 2016. As a result, IRS currently has 32 GAO recommendations to address, which consist of the previous 27 remaining recommendations and the 5 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 is committed to implementing appropriate improvements to ensure that it maintains sound financial management practices. IRS agreed with the 5 new recommendations and described planned actions to address each recommendation. IRS's comments are reproduced in enclosure II.

### **Objectives, Scope, and Methodology**

Our objectives were to evaluate IRS's internal control over financial reporting and to determine the status of IRS's corrective actions as of September 30, 2017, to address recommendations in our prior years' reports for which actions were not complete as of September 30, 2016.<sup>8</sup> This work was performed in connection with our audit of IRS's financial statements for the fiscal years ended September 30, 2017, and 2016, to support 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.

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<sup>6</sup>A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

<sup>7</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014), 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).

<sup>8</sup>An 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.

During the course of our work, we communicated our findings to IRS management. We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe that our audit provides a reasonable basis for our findings and recommendations in this report.

### **Internal Control Deficiencies Identified in Our Fiscal Year 2017 Audit**

We identified the following two new internal control deficiencies during our fiscal year 2017 audit that warrant IRS management's attention, one of which contributed to the continuing material weakness in IRS's internal control over unpaid assessments.

#### Correcting Unpostable Tax Transactions

Through its various operating divisions, IRS processes a large volume of tax-related transactions, including tax payments, requests for refunds, and assessments. To provide assurance that the transactions are accurate, IRS subjects them to a series of automated validity checks, which are intended to identify invalid transactions that should not be posted to IRS's master files.<sup>9</sup> The validity checks include such steps as verifying that the math on a filed tax return is correct and that the taxpayer's name corresponds to its registered taxpayer identification number. When an error is found and the transaction fails to pass the automated validity checks, it is placed into an "unpostable" status and cannot be posted to the master files until the responsible operating division researches the transaction and resolves the issue that rendered it unpostable. Unpostable transactions identified by the automated validity checks are displayed on a weekly status report for each responsible operating division to research and correct in order to complete recording the transactions in the master files. Each operating division has established separate policies and procedures for researching and correcting the unpostable transactions that appear on the status reports.

**Condition.** During our fiscal year 2017 audit, we found that IRS did not have fully effective processes in place to timely follow up on, resolve, and record to the master files transactions that had been initially identified as unpostable. Specifically, through our audit procedures, we noted several instances of unpostable transactions that IRS's Chief Financial Officer (CFO) organization identified and referred to the four operating divisions responsible for resolution. These operating divisions had not researched and resolved the unpostable transactions until IRS's CFO organization notified them to do so during fiscal year 2017. These transactions had remained uncorrected and unposted for periods ranging from 1 to 10 years.

**Criteria.** Internal control standards state that management should design control activities to achieve objectives and respond to risks, which includes designing appropriate types of control activities for the entity's control system, such as proper execution of transactions, accurate and timely recording of transactions, and reviews by management at the functional or activity level. Management should also implement control activities through policies, which includes documenting in policies for each unit its responsibility for an operational process's objectives and related risks and control activity design, implementation, and operating effectiveness.<sup>10</sup>

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<sup>9</sup>IRS's master files contain detailed electronic records of taxpayer accounts. IRS uses information in the master files for tax administration purposes and to support information reported on its financial statements. IRS also uses the information in the master files in its interactions with taxpayers, such as discussing account inquiries and sending notices to taxpayers.

<sup>10</sup>[GAO-14-704G](#).

**Cause.** While each of the four operating divisions responsible for processing unpostable transactions had established its own policies and procedures for correcting them, we found that these policies and procedures were not fully effective in achieving these objectives. For example, the Internal Revenue Manual (IRM) sections that the various operating divisions used did not always clearly define the time frames by which unpostable transactions were expected to be corrected.<sup>11</sup> Additionally, none of the four operating divisions had established effective oversight or supervisory review processes to reasonably assure that once personnel were assigned to correct unpostable transactions, they timely resolved the issue and recorded the transaction in the master file. IRS officials agreed that these issues contributed to the condition identified above. However, they indicated that the processes used to resolve unpostable transactions are very complex and that additional efforts are needed to research and determine the extent to which other factors may be affecting IRS's ability to resolve them in a timely manner.

**Effect.** Uncorrected and unposted tax transactions affect the accuracy of taxpayer accounts and integrity of IRS's accounting records and increase the risk of misstatements in IRS's financial statements. Such inaccuracies also cause undue burden to taxpayers that are assessed amounts they do not owe or whose accounts remained in IRS's inventory for collection when IRS no longer had authority to collect on them.<sup>12</sup>

**Recommendations for Executive Action.** We are making the following two recommendations to IRS:

- The Acting Commissioner of Internal Revenue should ensure that the appropriate IRS officials research and determine why IRS's existing policies and procedures intended to timely follow up on, resolve, and record unpostable transactions were not fully effective in achieving these objectives. (Recommendation 18-01)
- The Acting Commissioner of Internal Revenue should ensure that the appropriate IRS officials, based on IRS's research and determination, design and implement the corrective actions necessary to reasonably assure that IRS effectively resolves and records unpostable transactions in a timely manner, including establishing clearly defined time frames in the IRM by which the IRS operating divisions should correct unpostable transactions and appropriate related oversight and review processes. (Recommendation 18-02)

#### Monitoring of Internal Control Activities for Safeguarding Hard Copy Taxpayer Receipts and Associated Information

IRS has designed several processes and tools to periodically monitor operational controls over safeguarding hard copy taxpayer receipts and associated taxpayer information as well as physical security controls at its facilities. IRS personnel perform a Submission Processing internal control review to assist senior management in monitoring and evaluating submission processing activities, which include the receipt, transcription, and posting of hard copy taxpayer

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<sup>11</sup>The IRM is IRS's primary, official compilation of instructions that relate to IRS's administration and operations. The IRM is intended to ensure that IRS employees have the approved policy and guidance they need to carry out their responsibilities in administering the tax laws or other agency obligations. IRM § 1.11.2.2, *Internal Revenue Manual Process* (Jan. 1, 2017).

<sup>12</sup>IRS's statutory limitation on the length of time it can collect taxes is 10 years from the date of the tax assessment unless certain statutory exceptions apply. 26 U.S.C. § 6502.

receipts and data to taxpayers' accounts. In connection with this review, IRS personnel complete the (1) Submission Processing Security Review and (2) Submission Processing Receipt and Control Internal Control Checklist. The results of the Submission Processing Receipt and Control Internal Control Checklist are compiled in the Findings and Corrective Actions Report, which is submitted to senior management for review. In addition to the Submission Processing internal control review, IRS Receipt and Control personnel responsible for day-to-day submission processing activities conduct other reviews at the functional level, including periodic inspections of candling equipment.<sup>13</sup>

IRS physical security specialists monitor and assess physical security and emergency preparedness controls in place at IRS facilities, such as controls over perimeter and building security, alarms, and access to restricted areas. Physical security specialists use the Audit Management Checklist (AMC) to perform and document their review and complete a Corrective Action Report (CAR) for any facility where control deficiencies are identified. In addition, on a monthly basis, the physical security specialists review the All Events History Report (AEHR) that summarizes the details of all alarm incidents in an IRS office, such as activated intrusion detection alarm signals and the response of the dispatcher, to identify and assess whether corrective actions are warranted for any of the alarm events.<sup>14</sup> Physical security specialists annotate the AEHR with corrective actions taken for such alarm events. The completed AMCs, CARs, and AEHRs are reviewed by IRS security chiefs and territory managers.

**Condition.** During our fiscal year 2017 audit, we found that IRS's processes and monitoring tools were not adequately designed or implemented to provide senior management the information necessary to make informed decisions and effectively evaluate IRS's performance in safeguarding hard copy taxpayer receipts and associated information at its facilities. Specifically, for the Submission Processing internal control review, we found that (1) review questions on the Submission Processing Security Review were based, in part, on obsolete or unrelated IRM criteria; (2) the error threshold methodology used for assessing whether a control has met its objective had not been evaluated in the past 10 years to assess its current validity based on changes to the operating environment; (3) IRS procedures do not require findings identified during the Submission Processing Security Review to be compiled and reported in the Findings and Corrective Actions Report; and (4) the review does not include an assessment of safeguarding internal controls across all work shifts, particularly during peak seasons when multiple shifts are working and controls are most stressed.<sup>15</sup>

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<sup>13</sup>Candling is a process IRS uses to determine if any contents were left behind in opened envelopes received from taxpayers after employees had extracted their contents. This is often achieved by passing an envelope over a light source.

<sup>14</sup>To assist in managing the risk of physical threats to IRS employees and the assets they safeguard, IRS maintains a system of electronic intrusion detection and duress alarms in its offices. The alarms are linked to a central monitoring station at the facility. The central monitoring station generates the AEHR and is responsible for notifying a qualified first responder and contacting a designated IRS official when an alarm is activated.

<sup>15</sup>Peak season is a term used to describe the time frame when IRS expects to deposit the largest amount of money in the shortest time frame, specifically, the deposit of receipts related to U.S. Individual Income Tax Returns (April period). Mini-peak seasons are other time frames when IRS expects to deposit large amounts of money related to U.S. Corporation Income Tax Returns (March period), Quarterly Federal Excise Tax Returns (February, March, May, August, and November periods), U.S. Individual Income Tax Returns (October period), and when large volumes of mail are received (January 15 and September 15 periods). IRM § 3.30.123.3.1, *Processing Timeliness: Cycles, Criteria, and Critical Dates – Peak Deposit Cycles* (Jan. 1, 2014).

In addition, at one site we visited during our audit, we noted that taxpayer information was not properly destroyed after initial processing in that multiple copies of taxpayer envelopes containing personally identifiable information dated as far back as 2012 were posted on the walls for use as training aids. At another site, we found that the results of a quarterly candling equipment review performed at the functional level determined that over 20 percent of the candling tables available for use did not meet minimum light meter standards. However, the Submission Processing internal control review is not designed to identify or report these findings.

With regard to physical security, we determined that IRS management responsible for establishing policies related to safeguarding controls did not (1) use the information gathered from the AMC and AEHR reviews conducted by the physical security specialists to assess the effectiveness of these controls or provide a description of any other information that was used to monitor them nor (2) determine the minimum frequency for completing the AMC to provide information needed to monitor safeguarding controls for continued relevance and effectiveness, considering factors that may affect the appropriate timing of these reviews. The current instructions for performing the AMC review suggests three different scenarios that potentially allow up to 10 years between reviews, depending on the security level of the facility. In addition, we noted that for deficiencies identified during the AMC and AEHR reviews, management is not required to track all corrective actions until they are fully implemented.

**Criteria.** Internal control standards state that management should use quality information to achieve the entity's objectives, which includes management processing obtained data into quality information on a timely basis so that it can be used for effective monitoring and support to the internal control system and using the quality information to make informed decisions and evaluate the entity's performance in meeting objectives and responding to risks. In addition, management should implement its control activities for gathering this information through documented policies.<sup>16</sup>

**Cause.** The IRM does not require that the Submission Processing internal control, AMC, and AEHR reviews be conducted. In addition, IRS does not have policies in the IRM that require reporting the results of these reviews to senior management and senior management's review of these monitoring processes and tools, including keeping them current and assessing their continued relevance in achieving objectives and addressing risk.

**Effect.** Because IRS has not issued current and clear policies in the IRM for conducting and overseeing the reviews of operational and physical security controls, there is increased risk that deficiencies in the internal controls that the reviews are intended to monitor may exist and not be detected, and as a result, IRS may not promptly prevent or detect the theft, loss, or unauthorized access to hard copy taxpayer receipts and associated information. In addition, there is increased risk that IRS management may not effectively evaluate controls for continued relevance in achieving objectives and addressing risks.

**Recommendations for Executive Action.** We are making the following three recommendations to IRS:

- The Acting Commissioner of Internal Revenue should ensure that the appropriate IRS officials develop and implement policies in the IRM for conducting and monitoring the

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<sup>16</sup>[GAO-14-704G](#).

Submission Processing internal control review. These policies should include or be accompanied by procedures to (1) assess and update the review questions and cited IRM criteria to reasonably assure they align with the controls under review; (2) periodically evaluate and document a review of the error threshold methodology to assess its current validity based on changes to the operating environment; (3) report findings identified in the Findings and Corrective Actions Report; and (4) assess and monitor (a) safeguarding internal control activities across all work shifts, particularly during peak seasons, (b) safeguarding internal control activities for the appropriate use and destruction of hard copy taxpayer information, and (c) the results of relevant functional level reviews. (Recommendation 18-03)

- The Acting Commissioner of Internal Revenue should ensure that the appropriate IRS officials develop and implement policies in the IRM for conducting and monitoring the AMC review. These policies should include or be accompanied by procedures for IRS management responsible for establishing policies related to safeguarding controls to (1) periodically monitor the results of the review; (2) clarify the minimum requirements for how frequently the review should be completed at its various facilities while considering factors that may affect the most appropriate timing of these reviews, such as changes in personnel, operational processes, or information technology; and (3) reasonably assure that corrective actions for all identified deficiencies are tracked until fully implemented. (Recommendation 18-04)
- The Acting Commissioner of Internal Revenue should ensure that the appropriate IRS officials develop and implement policies in the IRM for conducting and monitoring the AEHR review. These policies should include or be accompanied by procedures for IRS management responsible for establishing policies related to safeguarding controls to (1) periodically monitor the results of the review and (2) reasonably assure that corrective actions for all identified deficiencies are tracked until fully implemented. (Recommendation 18-05)

### **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. As of September 30, 2016, there were 41 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 2017.<sup>17</sup> In the course of performing our fiscal year 2017 financial audit, we identified numerous actions IRS took to address previously identified control deficiencies. On the basis of IRS's actions taken through September 30, 2017, that we were able to substantiate through our audit, we are closing 14 of these recommendations. As a result, a total of 32 recommendations need to be addressed—27 remaining from our prior years' audits and the 5 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 prior audit recommendations that remained open as of September 30, 2016.

### **Agency Comments**

We provided a draft of this report to IRS for comment. In its comments, reproduced in enclosure II, IRS agreed with the five new recommendations and described planned actions to address each recommendation. IRS stated that it is committed to implementing appropriate

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<sup>17</sup>[GAO-17-454R](#).

improvements to ensure that it maintains sound financial management practices. 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 2018 financial statements.

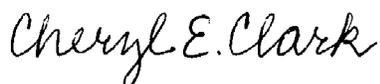
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This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on action taken or planned on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, the congressional committees with jurisdiction over the programs and activities that are the subject of our recommendations, and GAO not later than 60 days after the date of this report. A written statement must also be sent to the Senate and House Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report. Please send your statement of actions to me at [clarkce@gao.gov](mailto:clarkce@gao.gov) or Charles Fox, Assistant Director, at [foxc@gao.gov](mailto:foxc@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 other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by IRS officials and staff during our audit of IRS's fiscal years 2017 and 2016 financial statements. If you or your staff have any questions about this report, please contact me at (202) 512-9377 or [clarkce@gao.gov](mailto: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,



Cheryl E. Clark  
Director  
Financial Management and Assurance

Enclosures – 3

## Enclosure I: Status of Recommendations from Prior Audits Reported as Open in GAO's 2016 Management Report

Table 1 shows the status of recommendations reported as open in our 2016 management report.<sup>18</sup> We will continue to evaluate IRS's actions to address recommendations that remain open during future audits. The abbreviations used are defined in the legend at the end of the table.

**Table 1: Status of Recommendations Reported as Open in GAO's 2016 Management Report**

ID	Recommendation per audit area	Source report	Status
<b>Unpaid assessments</b>			
08-06	<p>In instances where computer programs that control penalty assessments are not functioning in accordance with the intent of the IRM, take appropriate action to correct the programs so that they function in accordance with the IRM.</p> <p><b>Action taken:</b> IRS completed an internal assessment of its penalty computation programs and identified 19 programming issues that caused its financial system to record erroneous penalty assessments into taxpayer accounts. As of September 30, 2017, IRS provided us with supporting documentation validating that it addressed and corrected 18 of the 19 programming issues. According to IRS, it will continue to address the final outstanding issue in fiscal year 2018.</p>	<a href="#">GAO-08-368R</a>	Open
10-04	<p>Once IRS identifies the control weaknesses that result in inaccuracies or errors that materially affect the financial reporting of unpaid assessments, implement control procedures to routinely prevent, or to detect and correct, such errors.</p> <p><b>Action taken:</b> IRS created a long-term corrective action plan that contains specific actions to improve control procedures to routinely prevent or detect and correct errors that affect unpaid assessments. IRS completed some of these action items during fiscal year 2017, such as establishing a taskforce to improve unpaid assessments data quality. While IRS completed these actions, GAO and IRS continued to identify numerous misclassified unpaid assessments that resulted from inaccuracies or errors in taxpayer accounts. Thus, IRS's actions to date have not been effective at fully addressing the issues that continue to cause material inaccuracies produced by IRS's financial systems.</p>	<a href="#">GAO-10-565R</a>	Open
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><b>Action taken:</b> In January 2017, IRS documented agency-wide procedures to routinely monitor the accuracy of penalties recorded in taxpayer accounts in the IRM, which details the agency-wide procedures IRS developed and implemented, and more specifically, the semiannual reviews it performs to reasonably assure the accuracy of penalty assessments recorded in taxpayer accounts and timely detect and correct errors. Additionally, IRS conducted and provided us with its penalty quality review results for February 2017, May 2017, and August 2017. IRS's actions sufficiently address our recommendation.</p>	<a href="#">GAO-15-480R</a>	Closed

<sup>18</sup>GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting*, [GAO-17-454R](#) (Washington, D.C.: May 17, 2017).

ID	Recommendation per audit area	Source report	Status
17-01	Develop and implement a process to reasonably assure that IRS operating divisions and the IT organization effectively coordinate with the CFO organization when making programming changes to information systems affecting financial reporting.	<a href="#">GAO-17-454R</a>	Open
	<b>Action taken:</b> IRS issued a memorandum in March 2017 to reiterate that IRS operating divisions and the IT organization should coordinate with the CFO organization when making programming changes to information systems affecting financial reporting. However, as of September 30, 2017, IRS's actions intended to fully address this recommendation, which include developing and implementing a coordination process, are ongoing.		
17-02	Research and determine the reason the IT organization did not follow IRS policy to thoroughly test programming changes related to the automation of specific penalty abatement procedures to reasonably assure that they worked as intended before implementation. Based on this determination, establish a process to better ensure compliance with existing policies for testing programming changes, including the use and review of the Applications Development transmittal checklist when developing program changes and retention of test results.	<a href="#">GAO-17-454R</a>	Open
	<b>Action taken:</b> As of September 30, 2017, IRS's actions to address this recommendation are ongoing.		
<b>Safeguarding</b>			
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.	<a href="#">GAO-09-513R</a>	Closed
	<b>Action taken:</b> During fiscal year 2017, IRS updated its procedures to require that physical security analysts conduct (1) a monthly documented review of the AEHR, previously referred to as the Emergency Signal History Report, to ensure that appropriate corrective actions have been planned for all incidents reported by the central monitoring station and (2) an annual documented review of the emergency contact list for each location to ensure that it is current and includes only appropriate contacts. While IRS met the intent of this recommendation by updating its procedures, we found that in August 2016, IRS removed from the IRM the requirement for physical security analysts to review the AEHR. IRS's removal of the IRM requirement creates a new control deficiency, which we address in this report.		
11-12	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.	<a href="#">GAO-11-494R</a>	Open
	<b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2018, it plans to review all contracts under \$100,000 open as of October 1, 2016, and ensure that each contract includes a clause requiring that favorable background investigations be obtained for all relevant contract employees before they are granted routine, unescorted, unsupervised physical access to taxpayer information. However, as long as IRS does not have a policy for reviewing potential service contracts (see Recommendation 11-13), IRS's review should include existing contracts within the most recent fiscal year.		

ID	Recommendation per audit area	Source report	Status
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 HCO 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><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that by August 2018, several internal organizations plan to partner to identify the remaining actions needed to address this recommendation. Proposed actions include refining policies and procedures to reasonably assure that (1) oversight between IRS's key offices is conducted to determine whether potential service awards that IRS enters into involve routine, unescorted, unsupervised physical access to taxpayer information by contractors, thus requiring background investigations, and (2) the resulting processes clarify who is responsible for completing the various steps, as well as who should maintain documentation of the approved access determination prior to the contractor providing services.</p>	<a href="#">GAO-11-494R</a>	Open
11-24	<p>Revise the post orders for the SCCs and lockbox bank security guards to include specific procedures for timely reporting exterior lighting outages to SCCs 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><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that by June 2018, it plans to analyze all campus post orders and update them as needed to ensure that documented procedures specify (1) whom to contact to report lighting outages and (2) how to document and track lighting outages until resolved.</p>	<a href="#">GAO-11-494R</a>	Open
12-10	<p>Update the IRM 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><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. Although IRS updated the IRM in an attempt to meet the intent of this recommendation, IRS did not undertake a global review of the level of access provided to all employee groups that handle hard copy taxpayer receipts and related sensitive information. As a result, in May 2016, IRS reassessed the risks at its TACs, where employees process taxpayer remittances through the electronic check presentment system and adjust taxpayer accounts. However, IRS has not updated the IRM to reflect policy changes based on its risk assessment. IRS stated that in fiscal year 2018, its W&amp;I organization will ensure that applicable IRM sections are revised for any policy changes based on its risk assessment, including specifying the appropriate level of IDRS access given to TAC employees who process payments.</p>	<a href="#">GAO-12-683R</a>	Open
13-05	<p>Perform a risk assessment to determine the appropriate level of 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>	<a href="#">GAO-13-420R</a>	Open

ID	Recommendation per audit area	Source report	Status
	<p><b>Action taken:</b> IRS’s actions to address this recommendation are ongoing. Although IRS performed a risk assessment to determine the appropriate level of IDRS access that should be granted to TAC employees who handle hard copy taxpayer receipts and related sensitive taxpayer information as part of their job responsibilities, it has not undertaken a global review of the level of access provided to all non-TAC employee groups that have IDRS access and staff-like access to hard copy taxpayer receipts and related sensitive information. IRS stated that by October 2019, its LB&amp;I, TEGE, TAS, and SBSE organizations, in coordination with its IT organization, will complete a risk assessment of all employee groups that handle hard copy taxpayer receipts and related sensitive taxpayer information to determine the most appropriate level of IDRS access. Based on the results of the assessment, these organizations plan to develop follow-up actions to mitigate or, where appropriate, accept the related risks from incompatible job duties of affected employee groups.</p>		
13-06	<p>Based on the results of the risk assessment, update the IRM accordingly to specify the appropriate level of 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.</p>	<a href="#">GAO-13-420R</a>	Open
	<p><b>Action taken:</b> IRS’s actions to address this recommendation are ongoing. As a result of its risk assessment efforts, IRS updated the IRM to restrict the use of certain IDRS command codes for remittance perfection technicians. In May 2016, IRS reassessed the risks at its TACs, including the specific risks and mitigating factors associated with allowing TAC employees to process taxpayer remittances and to adjust taxpayer accounts. However, IRS has not updated the IRM to reflect policy changes based on its risk assessment related to TAC employees. IRS stated that in fiscal year 2018, it plans to revise the applicable IRM sections for any policy changes, including specifying the appropriate level of IDRS access allowed for TAC employees who process payments. IRS also stated that by October 2020, it plans to undertake a global review of the level of access provided to non-TAC employee groups that have access to IDRS and hard copy taxpayer receipts and related sensitive information and update the applicable IRM sections.</p>		
13-07	<p>Establish procedures to implement the updated 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.</p>	<a href="#">GAO-13-420R</a>	Open
	<p><b>Action taken:</b> IRS’s actions to address this recommendation are ongoing. As a result of its risk assessment efforts, IRS updated the IRM to include procedures to restrict the use of certain IDRS command codes for remittance perfection technicians. However, IRS has not updated the IRM to reflect policy changes based on the results of its risk assessment related to TAC employees and, as applicable, other employees who have access to sensitive command codes and handle hard copy taxpayer receipts and related sensitive information as part of their job duties. IRS stated that by October 2020, it plans to undertake a global review of the level of access provided to non-TAC employee groups that have access to IDRS and hard copy taxpayer receipts and related sensitive information, update the applicable IRM sections, and establish applicable procedures to adhere to the IRM updates.</p>		

ID	Recommendation per audit area	Source report	Status
15-03	<p>Determine the reason(s) why TAC managers and personnel did not consistently comply with existing 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.</p> <p><b>Action taken:</b> During fiscal year 2016, IRS performed a study of the reasons why TAC managers and personnel did not consistently comply with IRM requirements and determined that staffing shortages, delays in receiving acknowledgments, and training inconsistencies were among the causes. During fiscal year 2017, IRS completed several actions to address its findings, such as establishing TAC appointment services to alleviate scheduling and staffing issues, revising its procedures for documenting transmittal acknowledgments, and providing comprehensive training to TAC managers and personnel. IRS's actions sufficiently address our recommendation.</p>	<a href="#">GAO-15-480R</a>	Closed
15-04	<p>Update the 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.</p> <p><b>Action taken:</b> In January 2017, IRS updated the IRM to require managers to review all remittance transmittals and a sample of nonremittance transmittals each month to ensure that personnel are documenting follow-up on unacknowledged transmittals of taxpayer receipts and information. This update also requires managers to document the results of the monthly review on the Field Assistance TAC Document Transmittal Review and Reconciliation form. As a result, our recommendation to require managers to reconcile the transmittals to the Follow-up Review Logs is no longer applicable, as IRS discontinued the use of the logs given its updated process. IRS's actions sufficiently address our recommendation.</p>	<a href="#">GAO-15-480R</a>	Closed
15-06	<p>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.</p> <p><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that by August 2018, its FMSS organization plans to partner with key stakeholders to identify the remaining actions and time frames necessary to refine existing policies, procedures, and processes to ensure (1) oversight among IRS's key stakeholders to determine whether potential service awards that involve routine, unescorted, unsupervised physical access to taxpayer information by non-IRS contractors require the completion of unauthorized access security awareness training and (2) the resulting processes and responsibilities are clear for each stakeholder to verify that the required training is completed.</p>	<a href="#">GAO-15-480R</a>	Open
15-07	<p>Establish procedures to monitor whether non-IRS contractors with unescorted physical access to IRS facilities are receiving unauthorized access awareness training.</p> <p><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that by October 2018, it plans to send out communication to its FMSS field offices that will include SOPs for monitoring and acquiring unauthorized access awareness training documentation for each non-IRS contractor.</p>	<a href="#">GAO-15-480R</a>	Open

ID	Recommendation per audit area	Source report	Status
15-08	<p>Determine the reasons why staff did not consistently comply with IRS's existing requirements for the final candling of receipts at SCCs 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.</p> <p><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2018, it plans to identify and analyze the risks associated with candling at the SCCs and lockbox banks, along with any mitigating factors, to determine whether further actions are warranted.</p>	<a href="#">GAO-15-480R</a>	Open
16-02	<p>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.</p> <p><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. During fiscal year 2016, IRS's HCO developed a process and revised procedures for its Employment Operations office to conduct monitoring procedures to reasonably assure that new employees do not enter on duty before prescreening adjudications are completed and approved by Personnel Security adjudicators. However, during our fiscal year 2017 audit, we identified IRS employees who entered on duty without completed or approved suitability adjudication determinations. IRS stated that in fiscal year 2018, it plans to determine the additional steps needed to reasonably assure that Employment Operations staff do not allow potential employees to enter on duty without approved adjudication determinations.</p>	<a href="#">GAO-16-457R</a>	Open
16-03	<p>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.</p> <p><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. While IRS responded that it established a policy and related procedures, it has not sufficiently demonstrated that the policy and procedures were implemented. During our fiscal year 2017 audit, we identified an instance where an employee was allowed to enter on duty and it was subsequently discovered that this employee was deemed unsuitable for employment during the prescreening process. IRS was unable to demonstrate that its procedures had been carried out for this employee. IRS stated that in fiscal year 2018, it plans to determine the additional steps needed to reasonably assure that it addresses 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.</p>	<a href="#">GAO-16-457R</a>	Open
16-04	<p>Develop and provide training, on a recurring basis, to all FMSS specialists and managers involved in the duress alarm validation and testing process to reinforce the related policies and procedures.</p> <p><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that by June 2018, it plans to develop a mandatory training for all physical security specialists and managers responsible for duress alarm validation and testing. In addition, it plans to develop a policy to ensure that the training is completed annually.</p>	<a href="#">GAO-16-457R</a>	Open

ID	Recommendation per audit area	Source report	Status
16-06	<p>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.</p> <p><b>Action taken:</b> In January 2017, IRS updated the IRM to require that TAC group and territory managers receive annual training on TSRRD responsibilities. In June 2017, IRS attested that all managers completed the annual TSRRD training for fiscal year 2017. IRS noted that if there is a change to the TSRRD process between the dates of the annual training, managers will be notified of any changes via e-mail. In addition, if the procedures are affected, the IRM and TSRRD job aid will be updated to reflect any changes. IRS's actions sufficiently address our recommendation.</p>	<a href="#">GAO-16-457R</a>	Closed
17-03	<p>Strengthen the process for reasonably assuring that the IRM is reviewed annually to align with the current control procedures and guidance being implemented by agency personnel. This should include a mechanism for reasonably assuring that program owner directors (1) review their respective program control activities and related guidance annually and timely update the IRM as needed, (2) document their reviews, and (3) utilize interim guidance and supplemental guidance correctly for their intended purposes.</p> <p><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2018, its Research, Applied Analytics and Statistics organization plans to strengthen the process to reasonably assure that all IRM sections are reviewed annually to align with the current control procedures and guidance being implemented by IRS personnel. This will include a mechanism to reasonably assure that program owner directors (1) review their respective program control activities and related guidance annually, and update the IRM timely, if needed; (2) document their reviews; and (3) use interim guidance and supplemental guidance correctly for their intended purposes.</p>	<a href="#">GAO-17-454R</a>	Open
17-04	<p>Ensure that the respective Agency-Wide Shared Services IRM and supplemental guidance related to the frequency of performing (1) emergency/alarm contact-list validation, (2) duress alarm inventory validation, and (3) federal security risk assessments are consistent.</p> <p><b>Action taken:</b> In February 2017, IRS revised the IRM and updated the corresponding SOP to synchronize the frequency of performing (1) emergency/alarm contact-list validation, (2) duress alarm inventory validation, and (3) federal security risk assessments. IRS's actions sufficiently address our recommendation.</p>	<a href="#">GAO-17-454R</a>	Closed
17-05	<p>Update the respective (1) Privacy, Governmental Liaison and Disclosure and (2) CFO IRM sections related to the definition of the tax gap to align with the current understanding followed by IRS personnel.</p> <p><b>Action taken:</b> IRS's actions to address this recommendation are ongoing. In April 2017, IRS updated the CFO IRM section to align the tax gap definition with the current understanding followed by IRS personnel. IRS stated that in fiscal year 2018, its Privacy, Governmental Liaison and Disclosure organization plans to remove the tax gap definition from its IRM section.</p>	<a href="#">GAO-17-454R</a>	Open

ID	Recommendation per audit area	Source report	Status
<b>Refunds</b>			
14-15	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.	<a href="#">GAO-14-433R</a>	Closed
	<b>Action taken:</b> In January 2016, IRS automated the process of locking deceased taxpayer accounts during its year-end processing. In January 2017, IRS implemented a process to prevent systemic tax refunds from being issued when a date of death is present on a deceased taxpayer's account. With this process in place, if a deceased taxpayer's account is reopened to process a tax return, IRS performs additional procedures to determine whether the tax refund is valid. During our fiscal year 2017 audit, we reviewed tax refunds disbursed on deceased taxpayer accounts that were reopened and determined that IRS's actions meet the intent of our recommendation.		
14-16	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.	<a href="#">GAO-14-433R</a>	Closed
	<b>Action taken:</b> In January 2016, IRS automated the process of locking deceased taxpayer accounts during its year-end processing. In January 2017, IRS implemented a process to prevent systemic tax refunds from being issued when a date of death is present on a deceased taxpayer's account. With this process in place, systemic tax refunds do not get processed on reopened deceased taxpayer accounts that were not timely closed. Instead, IRS performs additional procedures to determine whether the tax refunds are valid. During our fiscal year 2017 audit, we reviewed tax refunds disbursed on deceased taxpayer accounts that were reopened and determined that IRS's actions meet the intent of our recommendation.		
16-07	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.	<a href="#">GAO-16-457R</a>	Open
	<b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that in September 2017, its TAS organization established a process to better enforce the policies and procedures related to initiating, monitoring, and reviewing the monitoring of manual refunds. However, IRS anticipates that efforts by its W&I organization will not be completed until fiscal year 2018.		
16-08	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.	<a href="#">GAO-16-457R</a>	Open
	<b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2018, it plans to develop and provide interim training to COs on their roles and responsibilities related to certifying manual refunds for payment, including requirements to review supporting documentation for manual refunds. In addition, IRS stated that by February 2019, it also plans to develop a training course that will be provided annually.		
16-10	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.	<a href="#">GAO-16-457R</a>	Open
	<b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2018, it plans to identify the cause of and		

ID	Recommendation per audit area	Source report	Status
	implement a solution for dealing with the periodic backlogs of ICO inventory.		
17-06	Revise the applicable IRM sections pertaining to manual refunds to require employees to verify the validity of the digital signatures on the manual refund request forms and the manual refund signature authorization forms.  <b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2018, it plans to revise the applicable IRM sections pertaining to manual refunds to require that employees validate the digital signatures on manual refund request forms and manual refund signature authorization forms.	<a href="#">GAO-17-454R</a>	Open
<b>Gross cost</b>			
13-11	Establish and implement written policies or procedures that require the agency to record the obligation of funds when a contract or agreement is entered into and prior to taking delivery of goods or services.  <b>Action taken:</b> In August 2015, IRS updated the IRM to require IRS to record the obligation of funds when a contract or agreement is entered into and prior to taking delivery of goods and services. We tested IRS's implementation of the policy during our fiscal year 2017 audit and did not identify any exceptions. IRS's actions sufficiently address our recommendation.	<a href="#">GAO-13-420R</a>	Closed
16-16	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.  <b>Action taken:</b> In October 2016, IRS established and implemented procedures for calculating future lease payments for noncancelable operating leases that are reported in the notes to its financial statements. The procedures include (1) steps for considering any ad hoc clauses that may have specific termination dates and (2) a requirement for supervisory review to reasonably assure the accuracy of future lease payment amounts for noncancelable operating leases. We did not identify any exceptions during our fiscal year 2017 review of IRS's noncancelable operating lease schedules. IRS's actions sufficiently address our recommendation.	<a href="#">GAO-16-457R</a>	Closed
17-07	Revise system access rights in HR Connect to prevent HR assistants within the Employment Operations office from approving and releasing pay-related personnel actions to NFC.  <b>Action taken:</b> In April 2017, IRS identified and removed the system access rights in HR Connect that allowed HR assistants within the Employment Operations office to approve and release pay-related personnel actions. During our fiscal year 2017 audit, we observed that IRS's corrective actions were effective in preventing HR assistants from approving and releasing pay-related personnel actions and confirmed that these access rights were removed from all HR assistants in the Employment Operations office. IRS's actions sufficiently address our recommendation.	<a href="#">GAO-17-454R</a>	Closed
17-08	Revise the <i>HR Connect HR User Profiles Desk Guide</i> to clearly indicate that HR assistants within the Employment Operations office should not be granted access to approve and release pay-related personnel actions to NFC.  <b>Action taken:</b> IRS revised the <i>HR Connect HR User Profiles Desk Guide</i> in December 2016 and subsequently in April 2017. The revised desk guide	<a href="#">GAO-17-454R</a>	Closed

ID	Recommendation per audit area	Source report	Status
	provides instructions for granting access rights to HR assistants within the Employment Operations office that will not allow them to both approve and release pay-related personnel actions to NFC. IRS's actions sufficiently address our recommendation.		
<b>Net cost presentation</b>			
17-09	Establish and implement procedures to periodically review the process for determining the intragovernmental costs and costs with the public for each major program reported in the notes to the financial statements to provide reasonable assurance that these amounts are reliable and fairly presented.	<a href="#">GAO-17-454R</a>	Open
	<b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2018, its CFO organization plans to establish and implement procedures to periodically review the process for determining intragovernmental and public costs for each major program reported in the notes to the financial statements.		
<b>Property and equipment</b>			
16-11	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.	<a href="#">GAO-16-457R</a>	Closed
	<b>Action taken:</b> IRS issued AM064, <i>Asset Management Policy Directive to Identify Uncertified Class A and Class B Assets as Missing in KISAM</i> , effective October 1, 2016. This directive states that assets not verified or certified for more than two inventory cycles should be identified as "missing" in IRS's property management system. In November 2016, IRS established the <i>Missing Assets Financial Reporting Assessment</i> procedure, which states that assets in "missing" status for 1 year or more should be removed from the P&E reported on IRS's financial statements. IRS's actions sufficiently address our recommendation.		
16-12	Establish and implement procedures to reasonably assure that missing assets are timely removed from the financial statements when applicable.	<a href="#">GAO-16-457R</a>	Closed
	<b>Action taken:</b> In November 2016, IRS established the <i>Missing Assets Financial Reporting Assessment</i> procedure, which includes procedures for identifying assets that have been in missing status in the property management system for 1 year or more and for removing them from the P&E reported on IRS's financial statements. We verified that IRS conducted a missing assets analysis as of September 30, 2017, and determined that the net book value of the missing assets as of September 30, 2017, is immaterial. Thus, no adjustments to the financial statements were necessary. IRS's actions sufficiently address our recommendation.		
16-13	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.	<a href="#">GAO-16-457R</a>	Open
	<b>Action taken:</b> IRS established the <i>Asset Management Program Monitoring and Review</i> procedure, effective October 1, 2016, for performing quarterly sample reviews of IT assets in KISAM. In September 2017, IRS also revised the IRM to require FMSS territory managers or section chiefs to review KISAM key data elements for non-IT assets to verify they are correct and updated. During our fiscal year 2017 audit, we verified that IRS conducted quarterly reviews of a sample of IT and non-IT asset records in KISAM. Since fiscal year 2017 is the first year that IRS implemented its quarterly reviews, we will further assess the effectiveness of these reviews in providing		

ID	Recommendation per audit area	Source report	Status
	reasonable assurance that key detailed information is properly recorded and updated in KISAM during our fiscal year 2018 audit when we will conduct tests of physical inventory.		
16-14	Design a process to reasonably assure the adequacy of detailed supporting information for tangible P&E amounts recorded in the general ledger.	<a href="#">GAO-16-457R</a>	Open
	<b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2018, its CFO organization plans to 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.		
17-10	Provide clear guidelines as to what events constitute removal from IRS premises and the disposal date that should be recorded in its inventory system, either through an update of the IRM or other property and equipment-related desk guides.	<a href="#">GAO-17-454R</a>	Open
	<b>Action taken:</b> IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2018, its FMSS organization plans to provide clear guidelines on events that constitute removal of trackable property and equipment assets from IRS premises, and the disposal date that should be recorded in its inventory system, either by updating the IRM or the property and equipment-related desk guides.		

Legend:

AEHR: All Events History Report  
CFO: Chief Financial Officer  
CO: Certifying Officer  
FMSS: Facilities Management and Security Services  
HCO: Human Capital Office  
HR: Human Resources  
ICO: Input Correction Operation  
ID: identification of GAO recommendation number  
IDRS: Integrated Data Retrieval System  
IRM: Internal Revenue Manual  
IRS: Internal Revenue Service  
IT: information technology  
KISAM: Knowledge, Incident/Problem, Service Asset Management  
LB&I: Large Business and International  
NFC: National Finance Center  
P&E: property and equipment  
SBSE: Small Business Self-Employed  
SCC: service center campus  
SOP: standard operating procedures  
TAC: Taxpayer Assistance Center  
TAS: Taxpayer Advocate Service  
TEGE: Tax Exempt Government Entity  
TSRRD: TAC Security and Remittance Review Database  
W&I: Wage and Investment

Source: GAO evaluation of the status of recommendations as of September 30, 2017. | GAO-18-393R.

## Enclosure II: Comments from the Internal Revenue Service



COMMISSIONER

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

April 16, 2018

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-18-393R). We are pleased that GAO acknowledged our progress in addressing our financial management challenges and agreed to close 14 prior year financial management recommendations. We continue to implement processes to prevent or mitigate internal control deficiencies and improve financial management.

During fiscal year 2017, IRS continued to strengthen its controls over processing decedent taxpayer accounts, monitoring penalties, and accounting for operating leases, missing assets and unpaid assessments. The enclosed response addresses each of your new recommendations.

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 black ink, appearing to read "David J. Kautter".

David J. Kautter  
Acting Commissioner

Enclosure

**GAO Recommendations and IRS Responses to  
GAO FY 2017 Management Report  
“Improvements Are Needed to Enhance the Internal Revenue Service’s  
Internal Control over Financial Reporting”  
GAO-18-393R**

**Recommendation #1:** The Acting Commissioner of Internal Revenue should ensure that the appropriate IRS officials research and determine the reason(s) why IRS’s existing policies and procedures intended to timely follow-up on, resolve, and record unpostable transactions were not fully effective in achieving these objectives. (Recommendation 18-01)

Comments: The IRS agrees with this recommendation.

- By August 15, 2018, the Wage and Investment (W&I) organization will research and determine the reasons why IRS’s existing policies and procedures intended to follow-up on, resolve, and record its unpostable transactions timely were not fully effective in achieving these objectives.
- By August 15, 2018, the Criminal Investigation (CI) organization will research and determine the reasons why its existing policies and procedures intended to follow-up on, resolve, and record its unpostable transactions timely were not fully effective in achieving these objectives.
- By October 15, 2018, the Office of Appeals will research and determine the reasons why the policies, procedures and processes it uses to follow-up on, resolve, and record its unpostable transactions timely were not fully effective in achieving these objectives.
- By April 15, 2019, the Small Business/Self-Employed (SB/SE) organization will research and determine the reasons why the policies, procedures and processes it uses to follow-up on, resolve, and record its unpostable transactions timely, as applicable, may not be fully effective in achieving these objectives.

**Recommendation #2:** The Acting Commissioner of Internal Revenue should ensure that the appropriate IRS officials, based on IRS’s research and determination, design and implement the corrective actions necessary to reasonably assure that IRS effectively resolves and records unpostable transactions in a timely manner, including the establishment of clearly defined timeframes in the IRM by which unpostable transactions should be corrected by the IRS operating divisions and appropriate related oversight and review processes. (Recommendation 18-02)

Comments: The IRS agrees with this recommendation.

- By October 15, 2018, the CI organization will design and implement, based on the research and determination related to its unpostable transactions, the

corrective actions necessary to reasonably assure that it effectively resolves and records unpostable transactions timely, including the establishment of clearly defined timeframes in the IRM by which unpostable transactions should be corrected and the appropriate related oversight and review processes.

- By October 15, 2018, the W&I organization will design and implement, based on the research and determination related to its unpostable transactions, the corrective actions necessary to reasonably assure that it effectively resolves and records unpostable transactions timely, including the establishment of clearly defined timeframes in the IRM by which unpostable transactions should be corrected and the appropriate related oversight and review processes.
- By April 15, 2019, the Office of Appeals will design and implement, based on its research on unpostable transactions procedures and processes, any necessary corrective actions to reasonably assure that it effectively facilitates the resolution and recordation of unpostable transactions timely, including the establishment of clearly defined timeframes in the IRM by which unpostable transactions should be corrected and the appropriate related oversight and review processes.
- By March 15, 2020, the SB/SE organization will design and implement, based on its research on unpostable transactions procedures and processes, any necessary corrective actions, if needed, to reasonably assure that it effectively facilitates the resolution and recordation of unpostable transactions timely, including the establishment of clearly defined timeframes in the IRM by which unpostable transactions should be corrected and the appropriate related oversight and review processes.

**Recommendation #3:** The Acting Commissioner of Internal Revenue should ensure that the appropriate IRS officials develop and implement policies in the IRM for conducting and monitoring the Submission Processing internal control review. These policies should include or be accompanied by procedures to (1) assess and update the review questions and cited IRM criteria to reasonably assure they align with the controls under review, (2) periodically evaluate and document a review of the error threshold methodology to assess its current validity based on changes to the operating environment, (3) report findings identified in the Findings and Corrective Actions Report, and (4) assess and monitor (a) safeguarding internal control activities across all work shifts, particularly during peak seasons, (b) safeguarding internal control activities for the appropriate use and destruction of hardcopy taxpayer information, and (c) the results of relevant functional level reviews. (Recommendation 18-03)

Comments: The IRS agrees with this recommendation. By March 15, 2019, the W&I organization will develop and implement policies in the IRM for conducting and monitoring the submission processing internal control review. These policies should include or be accompanied by procedures to (1) assess and update the review

questions and cited IRM criteria to reasonably assure they align with the controls under review; (2) periodically evaluate and document a review of the error threshold methodology to assess its current validity based on changes to the operating environment; (3) report findings identified in the Findings and Corrective Actions Report; and (4) assess and monitor (a) safeguarding internal control activities across all work shifts, particularly during peak seasons, (b) safeguarding internal control activities for the appropriate use and destruction of hardcopy taxpayer information, and (c) the results of relevant functional level reviews.

**Recommendation #4:** The Acting Commissioner of Internal Revenue should ensure that the appropriate IRS officials develop and implement policies in the IRM for conducting and monitoring the AMC review. These policies should include or be accompanied by procedures for IRS management responsible for establishing policies related to safeguarding controls to (1) periodically monitor the results of the review, (2) clarify the minimum requirements for how frequently the review should be completed at its various facilities while considering factors that may affect the most appropriate timing of these reviews, such as changes in personnel, operational processes, or information technology, and (3) reasonably assure that corrective actions for all identified deficiencies are tracked until fully implemented. (Recommendation 18-04)

Comments: The IRS agrees with this recommendation.

- By August 15, 2018, the Facilities Management and Security Services (FMSS) organization will issue an IRM interim guidance memo establishing policy for conducting and monitoring the Audit Management Checklist (AMC) review, including (1) periodically monitoring the review results, (2) clarifying the frequency that various facilities should conduct the AMC reviews and any process change that could affect the timing of reviews, such as changes to personnel, operational processes, or information technology, and (3) reasonably assuring that corrective actions for all identified deficiencies are tracked until fully implemented.
- By July 15, 2020, the FMSS organization will add guidance to the applicable IRM establishing policy for conducting and monitoring the AMC reviews as described in the IRM interim guidance.

**Recommendation #5:** The Acting Commissioner of Internal Revenue should ensure that the appropriate IRS officials develop and implement policies in the IRM for conducting and monitoring the AEHR review. These policies should include or be accompanied by procedures for IRS management responsible for establishing policies related to safeguarding controls to (1) periodically monitor the results of the review and (2) reasonably assure that corrective actions for all identified deficiencies are tracked until fully implemented. (Recommendation 18-05)

Comments: The IRS agrees with this recommendation.

- By August 15, 2018, the FMSS organization will issue an IRM interim guidance memo establishing requirements for conducting an All Events History Report (AEHR) review and providing guidance on how it should be performed, including (1) periodically monitoring the review results and (2) reasonably assuring that corrective actions for all identified deficiencies are tracked until fully implemented.
- By August 15, 2020, the FMSS organization will update IRM 10.2.14, Methods of Providing Protection, to add guidance for conducting the AEHR reviews as described in the IRM interim guidance.

## **Enclosure III: GAO Contact and Staff Acknowledgments**

### **GAO Contact**

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### **Staff Acknowledgments**

In addition to the contact named above, the following individuals made major contributions to this report: Charles Fox (Assistant Director), Destiny Bowie, Stephanie Choi, Liliam Coronado, Nina Crocker, Ryan Guthrie, Cory Mazer, Bin Park, Michael Reed, John Sawyer, Kevin Scott, Eric Stalcup, Sunny Stanley, Vanessa Taja, Monasha Thompson, LaDonna Towler, and Cherry Vasquez.

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