



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

May 9, 2019

The Honorable Charles P. Rettig
Commissioner of Internal Revenue

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

Dear Mr. Rettig:

On November 9, 2018, we issued our report on our audit of the Internal Revenue Service's (IRS) fiscal years 2018 and 2017 financial statements, which included our opinion that although controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018.¹ In that report, we identified two significant deficiencies in internal control over financial reporting related to (1) unpaid assessments and (2) financial reporting systems.² The purpose of this report is to present continuing and new control deficiencies that we identified during our fiscal year 2018 testing of IRS's controls and our recommendations related to these deficiencies.³ This report also presents the status, as of September 30, 2018, of IRS's corrective actions to address our recommendations detailed in our previous management reports that remained open as of September 30, 2017.⁴ This report is intended for use by IRS management.

Results in Brief

During our audit of IRS's fiscal years 2018 and 2017 financial statements, we identified continuing control deficiencies related to IRS's accounting for federal taxes receivable and other unpaid assessments that collectively represent a significant deficiency in IRS's internal control over unpaid tax assessments as of September 30, 2018. We also identified new control deficiencies in IRS's internal control over financial reporting that although not considered

¹GAO, *Financial Audit: IRS's Fiscal Years 2018 and 2017 Financial Statements*, [GAO-19-150](#) (Washington, D.C.: Nov. 9, 2018).

²A 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 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. 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 reduced by IRS). Internal Revenue Manual § 1.34.1.2(138), *Definitions* (June 23, 2009).

³In 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 2018 audit, including the previously unresolved and new issues that collectively contributed to the significant deficiency in internal control over financial reporting systems as of September 30, 2018, along with associated new recommendations for corrective actions.

⁴GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting*, [GAO-18-393R](#) (Washington, D.C.: May 7, 2018).

material weaknesses or significant deficiencies, nonetheless, warrant IRS management's attention.⁵ These control deficiencies concern IRS's

- nationwide strategy for safeguarding taxpayer receipts and associated information,
- physical security policies and procedures,
- review of visitor access logs,
- transmission of taxpayer receipts,
- designations of unit security representatives,
- review of automated tax refund information prior to certification for payment,
- review of refund schedule numbers for manual refunds, and
- review of suspicious and questionable tax returns in Examination.

In this report, we are making 12 recommendations to address these control deficiencies. These recommendations are intended to improve IRS's internal control over financial reporting as well as to bring IRS into conformance with its own policies and *Standards for Internal Control in the Federal Government*.⁶

In addition, for six of the 32 recommendations from our prior reports related to control deficiencies in IRS's internal control over financial reporting, we found that IRS implemented corrective actions during fiscal year 2018 that resolved the deficiencies, and as a result, these recommendations were closed. We closed one additional recommendation that related to unpaid assessments, by making a new recommendation that is better aligned with the remaining deficiencies that collectively represent a significant deficiency in internal control over this area as of September 30, 2018. As a result, IRS currently has 37 GAO recommendations to address, which consist of the previous 25 remaining recommendations and the 12 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 12 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, 2018, to address recommendations in

⁵A 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.

⁶GAO, *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).

our prior years' reports for which actions were not complete as of September 30, 2017.⁷ This work was performed in connection with our audit of IRS's financial statements for the fiscal years ended September 30, 2018, and 2017, 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.

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 2018 Audit

During fiscal year 2018, we identified continuing control deficiencies in IRS's accounting for federal taxes receivable and other unpaid assessments that collectively represent a significant deficiency in IRS's internal control over unpaid assessments. In addition, we identified new control deficiencies in IRS's internal control over financial reporting that although not considered material weaknesses or significant deficiencies, warrant IRS management's attention. We are making 12 recommendations to address the control deficiencies we identified.

Accounting for Federal Taxes Receivable and Other Unpaid Assessments

We have reported a material weakness in IRS's internal control over unpaid assessments each year beginning with our first audit of IRS's financial statements for fiscal year 1992.⁸ This condition was primarily due to significant limitations in the tax transaction systems IRS uses to account for federal taxes receivable and other unpaid assessment balances, as well as other control deficiencies that led to errors in taxpayer accounts. As a result of their limitations, the systems were unable to provide the timely, reliable, and complete transaction-level financial information necessary to enable IRS to classify and report unpaid assessment balances in

⁷An 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.

⁸GAO, *Financial Audit: Examination of IRS' Fiscal Year 1992 Financial Statements*, [GAO/AIMD-93-2](#) (Washington, D.C.: June 30, 1993).

accordance with federal accounting standards.⁹ To compensate for the system limitations and errors in taxpayer accounts, IRS uses a complex and labor-intensive statistical process to estimate the fiscal year-end federal taxes receivable balance, consisting of the gross taxes receivable balance and an associated allowance for uncollectible amounts.¹⁰ Since this process was implemented in the 1990s, it has entailed IRS recording adjustments totaling tens of billions of dollars to correct the effects of errors in the underlying data in order to produce an estimated federal taxes receivable balance that was free of material misstatement at fiscal year-end. IRS has taken positive steps over the years, including in fiscal year 2018, to address systemic limitations and errors in taxpayer accounts and to refine the process for estimating the balance of federal taxes receivable for financial reporting purposes. However, some of these control deficiencies persisted, as detailed below. We also found that IRS did not clearly document several key management decisions regarding the design and use of the estimation process, such as its revised sampling procedures for estimating taxes receivable. IRS officials told us that they have taken actions to address this issue, which we will review during our fiscal year 2019 audit. Based on the cumulative effects of these and other efforts, GAO no longer considers the remaining deficiencies to represent a material weakness. However, the remaining control deficiencies collectively are significant enough to merit attention by those charged with governance, and therefore represent a significant deficiency in internal control over unpaid assessments as of September 30, 2018. As a result, we closed a recommendation, by making a new recommendation that is better aligned with the significant deficiency in internal control over this area.¹¹

Condition. During our fiscal year 2018 audit, we found that IRS’s financial management systems for tax transactions did not maintain readily available and reliable unpaid assessments information to support appropriate financial reporting and informed management decision-making throughout the year. Specifically, these systems continued to produce transactions with classification inaccuracies and that lack traceability to and back from the general ledger. In addition, taxpayer accounts continued to be adversely affected by erroneous information. For example, as part of IRS’s process of estimating a balance of federal taxes receivable as of

⁹Federal accounting standards classify unpaid 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 assessments for which IRS does not expect further collections because of factors such as the taxpayer’s death, bankruptcy, or insolvency. Federal accounting standards require only federal taxes receivable, net of an allowance for uncollectible taxes receivable, to be reported on 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 Internal Revenue Manual, § 1.34.1.

¹⁰The estimation process has evolved over time but currently involves IRS manually testing statistical samples of unpaid assessments extracted from its master files (the detailed records of taxpayer accounts) and extrapolating the results to estimate the year-end balances to be reported as (1) federal taxes receivable reported in its financial statements and in the associated Required Supplemental Information (RSI) and (2) compliance assessments and write-offs reported in the RSI.

¹¹See table 1 in enc. I, number 10-04.

September 30, 2018, IRS identified 41 errors in its selected sample of 494 taxes receivable account modules.¹²

Criteria. Internal control standards indicate that management should design control activities to achieve objectives and respond to risks, including designing appropriate types of control activities for the entity's control system, such as the proper execution of transactions, accurate and timely recording of transactions, and controls over information processing. In addition, management should use quality information, including relevant data obtained from reliable internal sources in a timely manner that is reasonably free from error. Furthermore, internal control standards state that management should remediate identified internal control deficiencies on a timely basis.¹³

Cause. IRS's systems for tax transactions were implemented before federal accounting standards related to accounting for tax revenues were issued in 1996. Consequently, they were not designed to meet the standards. Since that time, IRS has made several system enhancements; however, as of fiscal year 2018, IRS still had not sufficiently adapted its systems for tax transactions. For example, IRS's electronic tax records do not contain sufficient transaction-level detail to allow subsidiary ledger classification programs to accurately identify and analyze the relevant information required for proper classification of complex taxpayer accounts. In addition to continued system limitations, IRS has not effectively addressed the control deficiencies that resulted in its custodial tax processes recording errors in taxpayer accounts.

Effect. The tax transaction systems IRS uses to account for federal taxes receivable and other unpaid assessment balances do not provide IRS with the reliable unpaid assessment information needed throughout the year to support informed management decision-making. In addition, IRS is still not able to fully rely on its subsidiary ledger for systematically recording or tracking reliable and complete taxpayer data as management originally intended. Such inaccurate tax records also place an undue burden on taxpayers who may be compelled to respond to IRS inquiries caused by errors in their accounts.

Recommendation for Executive Action. We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials implement the necessary actions to effectively address the two primary causes of the significant deficiency in IRS's internal control over unpaid assessments. These actions should (1) resolve the system limitations affecting the recording and maintenance of reliable and appropriately classified unpaid assessments and related taxpayer data to support timely and informed management decisions, and enable appropriate financial reporting of unpaid assessment balances throughout the year, and (2) identify the control deficiencies that result in significant errors in taxpayer accounts and implement control procedures to routinely and effectively prevent, or detect and correct, such errors. (Recommendation 19-01)

¹²A taxpayer account module is a subset of a taxpayer's account reflecting the transactions for a specific tax year and tax type (individual income tax, excise tax, estate and gift tax, etc.). Based on IRS's design and evaluation of its statistical sample of gross taxes receivable, IRS is 95 percent confident that the errors resulted in \$9 billion of adjustments to correct this balance.

¹³[GAO-14-704G](#).

New Internal Control Deficiencies Identified in Our Fiscal Year 2018 Audit

Nationwide Strategy for Safeguarding Taxpayer Receipts and Associated Information

IRS has an important and demanding responsibility for safeguarding its personnel, hundreds of billions of dollars in taxpayer receipts, and sensitive taxpayer information at its many facilities.¹⁴ Facilities Management and Security Services (FMSS) is the IRS office that oversees the effectiveness of physical security measures and internal controls at IRS facilities, nationwide, to deliver a safe, secure, and optimal work environment that promotes effective tax administration. Specifically, FMSS is responsible for designing and implementing policies and procedures, internal controls, and security measures to control facility access and reporting incidents in and around facilities occupied by IRS personnel.

Condition. During our fiscal year 2018 audit, we found that IRS continued to face an ongoing management challenge in its efforts to safeguard taxpayer receipts and associated information.¹⁵ Specifically, we continued to find numerous deficiencies in the internal control over physical security at various IRS facilities. While some of these are new deficiencies, as we discuss separately in this report, many of the deficiencies we identified in previous audits continued to exist or have resurfaced. Some examples of previously reported deficiencies that continue to exist or have resurfaced include

- noncompliance with policies and procedures,¹⁶
- weaknesses in perimeter security,¹⁷
- lack of required training for contractors,¹⁸ and
- failure to complete incident reports.¹⁹

Criteria. Internal control serves as the first line of defense in safeguarding of assets and helps promote effective stewardship of public resources, such as taxpayer receipts and the associated information, and should be designed to provide reasonable assurance that the entity's objectives are achieved. Accordingly, internal control standards state that management should establish an organizational structure to achieve the entity's objectives and establish and operate

¹⁴As of September 2018, the IRS facility portfolio consisted of 523 buildings that house personnel and process taxpayer receipts and sensitive taxpayer information. Taxpayer Assistance Centers were located in 364 of the buildings, Small Business/Self-Employed had a presence in 432 of the buildings, Tax Exempt & Government Entities had a presence in 139 buildings, and Large Business & International resided in 261 of the buildings. In addition, there were five Submission Processing Centers, five lockbox banks, five consolidated campuses, and two computing centers that occupied buildings in the portfolio.

¹⁵[GAO-19-150](#). We have been reporting a management challenge over safeguarding taxpayer receipts and associated information every year since our fiscal year 2008 financial audit (*Financial Audit: IRS's Fiscal Years 2008 and 2007 Financial Statements*, [GAO-09-119](#) (Washington, D.C.: Nov. 10, 2008)).

¹⁶GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting*, [GAO-16-457R](#) (Washington, D.C.: May 18, 2016).

¹⁷GAO, *Management Report: Improvements Needed in IRS's Internal Controls*, [GAO-07-689R](#) (Washington, D.C.: May 11, 2007).

¹⁸GAO, *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).

¹⁹GAO, *Management Report: Improvements Needed in IRS's Internal Controls*, [GAO-06-543R](#) (Washington, D.C.: May 12, 2006).

activities to monitor the internal control system and evaluate the results. This includes performing ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Internal control standards also state that management should remediate identified internal control deficiencies on a timely basis.²⁰

Cause. IRS does not have a formal documented strategy, which includes monitoring to reasonably assure that physical security controls are being effectively coordinated and implemented uniformly and consistently across all of its facilities.

Effect. Because IRS continues to have internal control deficiencies in key areas of physical security, IRS is at an increased risk of physical threats to its employees as well as loss or theft of taxpayer receipts or inappropriate disclosure or compromise of taxpayer information that may occur while taxpayer receipts and information are being processed at IRS facilities.

Recommendation for Executive Action. We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials document and implement a formal comprehensive strategy to provide reasonable assurance concerning its nationwide coordination, consistency, and accountability for internal control over key areas of physical security. This strategy should include nationwide improvements for (1) coordinating among the functional areas involved in physical security; (2) implementing and monitoring the effectiveness of physical security policies, procedures, and internal controls; and (3) ongoing communication in identifying, documenting, and taking corrective action to resolve underlying control issues that affect IRS's facilities. (Recommendation 19-02)

Physical Security Policies and Procedures

IRS has security measures in place to deter and detect unauthorized entry, movement, and activity at its facilities in order to manage the risk of physical threats to IRS employees and loss of taxpayer receipts or inappropriate disclosure or compromise of taxpayer information. Examples of these security measures include use of intrusion detection systems (IDS), duress alarms, and closed-circuit television (CCTV) cameras. The IDS and duress alarms are linked to a central security control console (CSCC) at the facilities. Accordingly, when an alarm is set off in a facility, the CSCC is responsible for notifying a qualified first responder, as documented in the facility's emergency contact list.²¹ In order to ensure that alarms are operational, IRS's FMSS contracts alarm service vendors to annually test and inspect the alarms at each facility. In addition, IRS uses CCTV cameras to monitor activity inside and outside of its facilities, discourage criminal or threatening behavior, and aid in investigating incidents. The images from the CCTV cameras are recorded by a digital video recorder (DVR) to provide video monitoring and playback.

²⁰[GAO-14-704G](#).

²¹Each IRS facility maintains an emergency contact list, which documents the proper individuals the CSCC should contact during alarm events.

Condition. During our fiscal year 2018 audit, we identified the following deficiencies in physical security controls at 11 IRS facilities:²²

- FMSS physical security specialists and security section chiefs did not maintain the emergency contact list at one facility;
- IRS did not document in the Alarm Maintenance and Testing Certification Report the corrective actions for malfunctioning alarms identified in the annual alarm tests at two facilities;
- the time recorded from the CCTV cameras was not correct at nine of the facilities;
- the activity from three CCTV cameras was not recorded on the DVR at one facility; and
- the DVR was not secured to prevent unauthorized tampering at one facility.

Criteria. The Internal Revenue Manual (IRM)²³ policies and procedures require FMSS personnel to

- maintain an emergency contact list for each facility;²⁴
- synchronize the time being recorded from the CCTV cameras to an authoritative time source when the time difference is greater than one minute;²⁵ and
- secure DVRs in locked closets accessible only to authorized individuals.²⁶

Internal control standards state that management should establish and implement control activities through documented policies and perform ongoing monitoring of the operating effectiveness of the control activities.²⁷

Cause. IRS did not effectively follow IRM policies and procedures that require FMSS personnel to maintain an emergency contact list at all of its facilities. In addition, IRM policies and procedures do not require that corrective actions for malfunctioning alarms identified in the annual alarm tests be documented in the Alarm Maintenance and Testing Certification Report. Further, IRS does not periodically monitor the CCTV cameras and DVRs at IRS facilities to reasonably assure that the activity from the CCTV cameras is properly recorded at the correct time and the DVRs are secured.

Effect. By not effectively establishing and implementing physical security policies and procedures, IRS is at increased risk that it may not respond promptly in an emergency situation

²²During fiscal year 2018, we performed internal control testing at one Submission Processing Center (Ogden, Utah); eight field offices that included a Taxpayer Assistance Center or a Small Business/Self-Employed office, or both (three in Atlanta, Georgia, and one each in Columbus, Georgia; Seattle, Washington; Olympia, Washington; Everett, Washington; and Tacoma, Washington); one consolidated campus (Memphis, Tennessee); and one computing center (Martinsburg, West Virginia).

²³The 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, *IRM Standards* (Oct. 11, 2018).

²⁴IRM § 10.2.14.9.2 (6a), *Intrusion Detection System and Duress Alarm System Tests* (Aug. 17, 2016).

²⁵IRM § 10.8.1.4.3.7.1 (1b), *AU-8 Time Stamps – Control Enhancements* (Dec. 23, 2013).

²⁶IRM § 10.2.14.9.3 (9), *Closed Circuit Television (CCTV)* (Aug. 17, 2016).

²⁷[GAO-14-704G](#).

to protect its employees and facilities or detect the theft, loss, or unauthorized access to hard-copy taxpayer receipts and associated information.

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

- The Commissioner of Internal Revenue should ensure that appropriate IRS officials determine the reasons staff did not consistently comply with IRS's existing requirement for maintaining an emergency contact list at all of its facilities and, based on this determination, establish a process to enforce compliance with the requirement. (Recommendation 19-03)
- The Commissioner of Internal Revenue should ensure that appropriate IRS officials establish and implement policies and procedures requiring that corrective actions be documented in the Alarm Maintenance and Testing Certification Report for malfunctioning alarms identified in the annual alarm tests. (Recommendation 19-04)
- The Commissioner of Internal Revenue should ensure that the appropriate IRS officials establish and implement policies or procedures, or both, to provide reasonable assurance that the video surveillance systems at all IRS facilities record activity at the correct time and are properly secured. The policies or procedures should include periodic checks and adjustments, as needed, as part of the annual service and maintenance of security equipment and systems. (Recommendation 19-05)

Review of Visitor Access Logs

IRS collects and maintains a significant amount of taxpayer personal and financial information each day. Securing this sensitive information is critical in protecting taxpayers' privacy and preventing financial loss and damage that could result from identity theft and other financial crimes. IRM policies and procedures require IRS to store sensitive information in secured areas to minimize the potential for unauthorized access and utilize visitor access logs to document and track the individuals who access these secured areas.²⁸

Condition. During our fiscal year 2018 audit, we found that the visitor access logs in secured areas at certain facilities were not reviewed annually as required.²⁹

Criteria. IRM policies and procedures require an annual review of visitor access logs in secured areas.³⁰ Internal control standards state that management should design control activities to achieve objectives and respond to risks, including designing appropriate types of control activities for the entity's control system, such as physical controls over vulnerable assets and appropriate documentation of transactions and internal control.³¹

²⁸IRM § 10.8.1.4.11.7(1b), *PE-8Visitor Access Records* (Dec. 23, 2013).

²⁹We identified this issue in six facilities located in Austin, Texas; Phoenix, Arizona; Atlanta, Georgia; New Carrollton, Maryland; New York, New York; and Ogden, Utah.

³⁰IRM § 10.8.1.4.11.7 (1b), *PE-8Visitor Access Records* (Dec. 23, 2013).

³¹[GAO-14-704G](#).

Cause. While IRS requires an annual review of visitor access logs, IRM policies and procedures do not specify (1) who is responsible for conducting the review, (2) the date by which the review should be conducted, and (3) how the review should be documented.

Effect. By not effectively reviewing visitor access logs, IRS is at increased risk that unauthorized individuals may access secured areas, thereby increasing the vulnerability of sensitive taxpayer information to theft and misuse.

Recommendation for Executive Action. We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials update and implement policies or procedures, or both, to clarify (1) who is responsible for conducting the annual review of the visitor access logs, (2) the date by which the review is to be conducted, and (3) how the review should be documented. (Recommendation 19-06)

Transmission of Taxpayer Receipts

IRS's Small Business/Self-Employed (SB/SE) units receive taxpayer payments and other documents with sensitive taxpayer information (i.e., receipts) and mail these receipts to other IRS facilities, such as Submission Processing Centers (SPC), in transmittal packages for further processing.³² Each transmittal package mailed includes a transmittal form listing the receipts being mailed.³³ IRM policies and procedures require the facilities receiving the transmittal packages to acknowledge receipt by signing the transmittal forms and returning the forms to the respective SB/SE locations for retention.³⁴ Managers in the SB/SE units perform periodic reviews of the transmittal forms to ensure that procedures for transmitting taxpayer receipts are properly followed.

Condition. During our fiscal year 2018 audit, we found some instances where IRS employees did not comply with IRM policies and procedures for ensuring that transmittal forms that the SB/SE units prepared were reviewed, acknowledged, and retained as required. Specifically, during our visits to seven SB/SE locations,³⁵ we found the following:

- transmittal forms on file at two SB/SE locations did not always have acknowledgments of receipts from the SPCs;
- at one SB/SE location, transmittal forms were not retained for the minimum period as required; and
- a group manager from Collection did not perform a review of the transmittal forms.

³²During fiscal year 2018, there were 432 SB/SE units located throughout the United States and Puerto Rico. These units are field offices that serve self-employed individuals, individual filers with certain types of nonsalary income, and small businesses.

³³Transmittal forms include Forms 795, *Daily Report of Collection Activity*, and Forms 3210, *Document Transmittal*.

³⁴IRM § 5.1.2.4.5.1, *Form 3210 and Form 795/795A Follow Up* (Sept. 26, 2014), and IRM § 10.5.1.6.7.3, *Shipping* (Mar. 23, 2018).

³⁵During fiscal year 2018, we performed internal control testing at seven SB/SE units (three in Atlanta, Georgia, and one each in Columbus, Georgia; Seattle, Washington; Olympia, Washington; and Tacoma, Washington), which included six units from Collection and one unit from Examination.

Criteria. According to IRS’s policies and procedures, SB/SE units are required to (1) follow up with the other facilities if they do not receive acknowledgments within 14 days³⁶ and (2) retain transmittal forms for a minimum of 3 years.³⁷ The policies and procedures also require that SB/SE managers perform periodic reviews of the transmittal forms.³⁸

Cause. Management did not effectively enforce its policies and procedures for transmitting receipts between IRS locations.

Effect. By not following existing policies and procedures concerning transmittal forms, IRS is at increased risk that SB/SE units will not adequately track receipts sent from one IRS facility to another, thus increasing the risk of loss, theft, and misuse of taxpayer receipts and information.

Recommendation for Executive Action. We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials (1) identify the reason IRS’s policies and procedures related to the transmittal forms were not always followed and (2) design and implement actions to provide reasonable assurance that SB/SE units comply with these policies and procedures. (Recommendation 19-07)

Designations of Unit Security Representatives

Unit security representatives (USR) are responsible for maintaining security over the Integrated Data Retrieval System (IDRS), one of the key systems IRS uses to process taxpayer data.³⁹ USRs monitor each IDRS user’s access codes, update user profiles for changes in access rights, issue temporary passwords, review security reports, and take appropriate action to address security weaknesses and breaches. USR approvals and authorizations are documented on the IDRS Security Personnel Designation Form (USR designation form), indicating that the employee has met the requirements to perform USR duties.⁴⁰

Condition. During our fiscal year 2018 audit, we found instances where employees were given access to IDRS security command codes to perform USR duties even though their USR designation forms were incomplete or they had not met all requirements to qualify to be USRs. Specifically, during our review of USR designation forms and IRS processes for approving and authorizing the forms, we found the following:

- for eight employees, the USR designation forms did not indicate whether the employees met the requirements to be USRs;

³⁶IRM § 5.1.2.4.4(2g), *Procedures for Mailing Form 795/795A to Submission Processing* (Jan. 24, 2012).

³⁷IRM § 5.1.2.4.5.1, *Form 3210 and Form 795/795A Follow Up* (Sept. 26, 2014).

³⁸IRM § 1.4.50.11.1(1), *Remittance Control Reviews* (Sept. 12, 2014); and IRM Exhibit § 1.4.50-9, *Remittance Processing Transmission Control Review Template* (Mar. 21, 2013).

³⁹IDRS is an IRS computer system that enables employees to research taxpayer account information; request tax returns and account transcripts; input transactions, such as adjustments and entity changes; input collection information for storage and processing in the system; generate notices, collection documents, and other outputs; and initiate refund disbursements.

⁴⁰IRM § 10.8.34.3.2.8, and IRM § 10.8.34.3.2.5(4), *IDRS Security Account Administrator* (Apr. 1, 2014).

- for 27 employees, the USR designation forms did not indicate that current background investigations were completed;⁴¹
- for two employees, their second-level managers approved the USR designation forms before the employees completed initial training;
- for two employees, the USR designation forms were approved and authorized even though the employees had not completed annual refresher training;
- the IDRS security account administrator authorized the USR designation form for one employee without verifying the authority of the individual approving the form as a second-level manager; and
- the IDRS security account administrator gave one employee access to IDRS security command codes to perform USR duties before the USR designation form was approved and authorized.

Criteria. According to IRS policies and procedures, to be designated as a USR, an employee is required to (1) have a completed background investigation, (2) complete initial USR training prior to performing USR duties, and (3) complete refresher USR training at least annually.⁴² USR designations must first be approved by a second-level or higher manager in direct chain of command of the USR designee, and then IDRS security account administrators must authorize the USR's access to IDRS security command codes.

Internal control standards state that management should design control activities to achieve objectives and respond to risks and implement control activities through policies, including determining and documenting policies in the appropriate level of detail necessary to operate processes based on objectives and related risks.⁴³

Cause. Although IRS has IRM policies and procedures requiring that employees meet certain requirements before becoming USRs, the policies and procedures do not clearly define who is responsible for validating the information on USR designation forms. In addition, IRS's policies and procedures do not specify how the information reported on the USR designation forms should be validated (e.g., validating against the records or systems, or both, from which the information is derived).

Effect. By not properly approving and authorizing employees to serve as USRs, IRS is at increased risk that individuals may inappropriately access IDRS and perform unauthorized activity, such as processing fraudulent refunds.

Recommendation for Executive Action. We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials update and implement policies or procedures, or both, to clearly define the roles and responsibilities of second-level managers and IDRS security account administrators for validating the information on USR designation forms, including specifying how the information should be validated. (Recommendation 19-08)

⁴¹The background investigation completion dates reported on the USR designation forms were more than five years old.

⁴²IRM § 10.8.34.3.2.8(6)-(7), *Unit Security Representative (USR)* (Apr. 1, 2014).

⁴³[GAO-14-704G](#).

Review of Automated Tax Refund Information Prior to Certification for Payment

In fiscal year 2018, IRS issued approximately \$365 billion in automated tax refunds. IRS's systems generate most tax refunds automatically after taxpayers' returns are recorded to their master file accounts.⁴⁴ In order to disburse the tax refunds, data entry operators from the Processing Validation Section (PVS) import the tax refund data elements from the master files into the Bureau of the Fiscal Service's (Fiscal Service) Secure Payment System (SPS), an automated system used to certify tax refunds for payment.⁴⁵ Data entry operators then submit the tax refunds to the certifying officers (CO) for certification in SPS. After the COs certify the automated tax refunds, Fiscal Service disburses the tax refunds to the taxpayers.

Condition. During our fiscal year 2018 audit, we found that a PVS CO certified tax refunds without effectively verifying the accuracy of the data elements. Specifically, the PVS CO certified tax refunds in SPS even though there were some errors in the tax refund data elements, such as the total number and amounts of tax refund payments.

Criteria. Internal control standards state that management should design control activities to achieve objectives and respond to risks, including designing controls over information processing, such as a review process that includes edit checks of data entered. In addition, management should implement control activities through policies, including determining and documenting policies in the appropriate level of detail necessary to operate the process based on objectives and related risk.⁴⁶

Cause. While IRS's procedures require that PVS COs review the tax refund information in SPS before certifying the tax refunds, the procedures do not clearly specify all of the tax refund data elements the PVS COs are required to verify for accuracy.

Effect. By allowing inaccurate tax refund data elements to be certified for payment in SPS, IRS is at increased risk that (1) duplicate or erroneous tax refunds will be disbursed to taxpayers, (2) tax refunds will not be disbursed to taxpayers, or (3) the disbursement of tax refunds will be delayed.

Recommendation for Executive Action. We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials update and implement procedures to clearly specify the tax refund data elements that PVS COs are required to verify before certifying the tax refunds in SPS. (Recommendation 19-09)

Review of Refund Schedule Numbers for Manual Refunds

IRS's systems generate most tax refunds automatically after taxpayers' returns are recorded to their master file accounts. However, IRS requires that refunds meeting certain criteria, such as

⁴⁴Tax refunds include overpayments made by taxpayers and payments for certain tax credits, including the Earned Income Tax Credit and the Premium Tax Credit. 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.

⁴⁵The tax refund data elements imported into SPS include the refund schedule number, total refund amount, and number of tax refunds for each of the 10 service center campuses. The same refund schedule number can be assigned to multiple tax refunds. PVS performs the certification process for automated tax refunds.

⁴⁶[GAO-14-704G](#).

those related to certain hardship conditions or those exceeding \$100 million, be manually reviewed and approved before disbursement.⁴⁷ When manual refunds are processed, they bypass most of the system validity checks that occur with automated refunds. In fiscal year 2018, IRS disbursed approximately \$49 billion in manual refunds. When a manual refund is warranted, IRS personnel initiate, approve, and forward manual refunds to the manual refund units in Accounting Operations (manual refund units) at the SPCs.⁴⁸ After the manual refunds are approved, they are assigned a refund schedule number (RSN) consisting of 14 digits.⁴⁹ For certain manual refunds processed outside of the master files, manual refund units manually assign the RSNs⁵⁰ and send the manual refund forms to the Data Conversion unit.⁵¹ The key entry operators in the Data Conversion units manually enter information from the manual refund forms, including the RSNs, into the Integrated Submission and Remittance Processing (ISRP) system for posting to the master files.⁵²

Condition. During our fiscal year 2018 audit, we found that IRS did not always properly post RSNs to the master files. Specifically, we found instances where Data Conversion key entry operators entered RSNs into the ISRP system that were fewer than the required 14 digits or did not correspond to the RSNs assigned by manual refund units.

Criteria. Internal control standards state that management should design control activities to achieve objectives and respond to risks, including designing appropriate types of control activities for the entity's control system, such as accurate and timely recording of transactions and reviews by management at the functional or activity level.⁵³

Cause. IRS does not require a review of the manual refund information, including the RSNs that Data Conversion key entry operators enter into the ISRP system. Further, the ISRP system does not include a validity check to confirm that RSNs that Data Conversion key entry operators entered have the required 14 digits.

Effect. Because manual refunds bypass most of the system validity checks that occur with automated refunds, the risk of erroneous or fraudulent refunds being disbursed is increased. Therefore, by not posting correct RSNs to the taxpayer account, IRS is at increased risk that it may not be able to track tax refund payments, causing undue burdens on taxpayers.

⁴⁷IRM § 21.4.4.3, *Why Would A Manual Refund Be Needed?* (Oct. 1, 2017).

⁴⁸IRM § 3.17.79.3.2, *Processing Manual Refunds* (Nov. 13, 2017).

⁴⁹IRM Exhibit § 3.17.79-4, *Refund Schedule Number Format* (Mar. 25, 2016). IRS uses RSNs to submit tax refund payment information to the Fiscal Service, which then disburses the tax refund payments to taxpayers. RSNs can also be matched to transmission records, check volume, amount, and date certified. IRM § 3.17.79.1.2(5), *Refund Types and Methods – Treasury Disbursing Bureau of the Fiscal Service* (Nov. 19, 2015).

⁵⁰IRM § 3.17.79.6.4.2, *Certifying Automated Clearing House (ACH)/Direct Deposit Hardship Refunds* (Oct. 4, 2017).

⁵¹IRM § 3.17.79.5(13), *Accounting Review of Manual Refund Requests, Form 3753* (June 18, 2015).

⁵²IRS uses the ISRP system to transcribe and format data from paper tax returns, documents, and vouchers so that key entry operators in Data Conversion can post them to the master files and other systems. IRM § 3.17.79.6.1(5), *Scheduling Refunds* (June 18, 2015).

⁵³[GAO-14-704G](#).

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

- The Commissioner of Internal Revenue should ensure that the appropriate IRS officials establish and implement a review process to provide reasonable assurance that the RSNs that Data Conversion key entry operators enter into the ISRP system and post to the master files are correct. (Recommendation 19-10)
- The Commissioner of Internal Revenue should ensure that the appropriate IRS officials implement a validity check in the ISRP system to confirm that RSNs that Data Conversion key entry operators enter into the system have the required 14 digits. (Recommendation 19-11)

Review of Suspicious and Questionable Tax Returns in Examination

During the processing of tax returns, any tax return that IRS's systems identify as suspicious or questionable is assigned as a case to IRS's examination units for review.⁵⁴ Tax examiners in the examination units work each case to validate the information reported on the tax return. Reviewers are responsible for reviewing two cases for each tax examiner each month to ensure the accuracy of the cases worked.⁵⁵

Condition. During our fiscal year 2018 audit, we noted that while the reviewers provided feedback to the tax examiners about errors identified as part of their reviews, not all reviewers followed up on whether the tax examiners had corrected the errors identified.

Criteria. Internal control standards state that management should implement control activities through policies, including 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. Also, those in key roles for the unit may define policies through day-to-day procedures. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified.⁵⁶

Cause. IRM policies and procedures do not require the reviewers to follow up on whether the errors that they identified while reviewing tax examiner-prepared cases related to suspicious or questionable tax returns have been corrected.

Effect. Because IRS does not have clear IRM policies or procedures that require the reviewers to follow up on corrective actions made by the tax examiners on suspicious or questionable tax returns, IRS is at increased risk that inaccurate information may be applied to taxpayer accounts or invalid or inaccurate refunds may be disbursed.

⁵⁴IRS uses system checks during tax returns processing to identify potential suspicious or questionable returns. These system checks include the Return Review Program and the Dependent Database. IRS systems use internal and external data to verify taxpayer-provided information against (1) taxpayer information from its systems, (2) child custody information provided by the Department of Health and Human Services, (3) the dependent and child birth information provided by the Social Security Administration, and (4) prisoner information from the National Prisoner File to determine the validity of the claims on tax credits and refunds.

⁵⁵Reviewers are managers or lead tax examiners.

⁵⁶[GAO-14-704G](#).

Recommendation for Executive Action. We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials update and implement policies or procedures, or both, to require that reviewers follow up with tax examiners to verify the errors that tax examiners made in working on cases related to suspicious or questionable tax returns are corrected. (Recommendation 19-12)

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, 2017, there were 32 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 2018.⁵⁷ During our fiscal year 2018 financial audit, we determined that IRS had completed corrective actions to address previously identified control deficiencies for six of the 32 recommendations that remained open as of September 30, 2017. In addition, as discussed above, based on the cumulative effects of IRS efforts over the years, we determined that the remaining deficiencies related to unpaid assessments collectively represented a significant deficiency, rather than a material weakness, as of September 30, 2018. As a result, we also closed one additional recommendation that related to this area, by making a new recommendation that is better aligned with the significant deficiency. As a result, a total of 37 recommendations need to be addressed—25 remaining from our prior years’ audits and the 12 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, 2017.

Agency Comments

We provided a draft of this report to IRS for comment. In its comments, reproduced in enclosure II, IRS agreed with the 12 new recommendations and described planned actions to address each recommendation. IRS stated that it is committed to implementing appropriate 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 2019 financial statements.

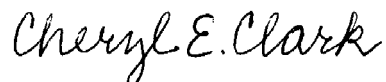
This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on action taken or planned on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Reform, the congressional committees with jurisdiction over the programs and activities that are the subject of our recommendations, and GAO not later than 180 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 180 days after the date of this report. Please send your statement of actions to me at clarkce@gao.gov or Nina Crocker, Assistant Director, at crockern@gao.gov.

⁵⁷[GAO-18-393R](#).

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 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 from IRS officials and staff during our audit of IRS's fiscal years 2018 and 2017 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 cursive script that reads "Cheryl E. Clark".

Cheryl E. Clark
Director
Financial Management and Assurance

Enclosures – 3

Enclosure I: Status of Recommendations from Prior Audits Reported as Open in GAO's 2017 Management Report

Table 1 shows the status of recommendations reported as open in our 2017 management report.⁵⁸ We will continue to evaluate the Internal Revenue Service'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 2017 Management Report

ID	Recommendation per audit area	Source report	Status
Unpaid assessments			
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>Action taken: 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 in taxpayer accounts. As of September 30, 2018, IRS provided us with supporting documentation validating that it had addressed and corrected all 19 of the identified programming issues. IRS's actions sufficiently address our recommendation.</p>	GAO-08-368R	Closed
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>Action taken: Over the years, IRS has devoted significant resources to addressing internal control weaknesses that result in inaccuracies or errors and materially affect the financial reporting of unpaid assessments, and IRS has implemented control procedures to routinely prevent or detect and correct such errors. Specifically, IRS has taken steps to address the causes of data errors, including (1) enhancing its capability to accurately report balances owed that arise as a result of complex assessment situations and (2) implementing a number of quality control reviews to timely monitor, identify, and correct errors that affect taxpayer accounts at the transaction level. During fiscal year 2018, IRS continued to improve internal controls over the management and reporting of unpaid assessments, including implementing the recommendations of an internal task force to address related data quality concerns. In addition, IRS made progress in completing its long-term corrective action plan for resolving these control weaknesses by employing several programming changes for systemically classifying unpaid assessments more accurately. These efforts have yielded positive results over the years, and the magnitude of errors identified through IRS's unpaid assessments statistical estimation process has materially decreased. Furthermore, during our fiscal year 2018 testing of unpaid assessments, we did not find errors substantial enough to cause material inaccuracies in the reported balances. IRS's actions sufficiently address the intent of our recommendation. To provide a recommendation that is better aligned with the</p>	GAO-10-565R	Closed

⁵⁸GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting*, [GAO-18-393R](#) (Washington, D.C.: May 7, 2018).

ID	Recommendation per audit area	Source report	Status
	remaining control deficiencies in this area that represent a significant deficiency as of September 30, 2018, we have closed this recommendation and included a new recommendation in this report under Accounting for Federal Taxes Receivable and Other Unpaid Assessments.		
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.	GAO-17-454R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. In July 2018, IRS's IT, Strategy, and Planning organization developed a process intended to ensure that the operating divisions and IT and CFO organizations effectively coordinate when making programming changes to information systems affecting financial reporting. This process requires operating divisions to coordinate with the CFO organization to determine whether proposed programming changes could affect financial reporting. In addition, each quarter, the IT organization will provide the CFO with a list of requested programming changes, which allows for the CFO to review programs and flag those that may affect financial reporting. Any flagged programming changes denoted may require additional coordination between the operating divisions to prevent future changes from adversely affecting financial reporting. IRS also issued a memorandum informing the operating divisions that the CFO organization will be reviewing all programming changes to flag those deemed impactful. However, the CFO organization has not documented and finalized the procedures to support this coordination process.</p>		
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.	GAO-17-454R	Closed
	<p>Action taken:</p> <p>As of September 30, 2018, IRS's Business Master File Office of the IT organization researched and determined the reasons its staff 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. According to the IT organization, these reasons included lack of (1) clear and consistent communication between stakeholders, (2) compliance with existing standards and policies, and (3) oversight to ensure quality programming changes. Based on this determination, the IT organization implemented weekly stakeholder meetings, created additional training to increase understanding of and compliance with existing standards and policies, and developed a new Applications Development transmittal checklist for required use when developing program changes and ensured the retention of test results. IRS's actions sufficiently address our recommendation.</p>		
18-01	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.	GAO-18-393R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. As of September 30, 2018, three of the five operating divisions involved in addressing this recommendation researched and determined the reasons that the existing policies and procedures intended for follow-up resolution and</p>		

ID	Recommendation per audit area	Source report	Status
	recording unpostable transactions were not fully effective. Based on their determinations, three operating divisions have taken corrective actions intended to resolve the identified unpostable transactions.		
18-02	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.	GAO-18-393R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. As of September 30, 2018, two of the five operating divisions involved in addressing this recommendation designed and implemented the corrective actions they considered necessary to reasonably assure that IRS effectively resolves and records unpostable transactions in a timely manner.</p>		
Safeguarding			
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.	GAO-11-494R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. IRS stated that it is working on identifying an approach for providing the necessary supporting contract documentation to close this recommendation.</p>		
11-13	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.	GAO-11-494R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. IRS stated that during fiscal year 2019, several internal organizations plan to partner to identify the remaining actions needed to address this recommendation. Proposed actions include refining policies and procedures to ensure 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>		
11-24	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.	GAO-11-494R	Open

ID	Recommendation per audit area	Source report	Status
Action taken:	<p>During fiscal year 2018, IRS completed an analysis of the campus post orders (i.e., Armed Security Officer (ASO) contract post orders and Federal Protective Services (FPS) contract post orders) and relevant IRM requirements to identify the actions necessary to address this recommendation. IRS stated that in October 2018, it updated the ASO contract post orders to include guidance for documenting, reporting, and tracking lighting deficiencies by contract guards. As it relates to the FPS contract post orders, IRS stated that FPS did not agree to make changes to address lighting outage procedures and that IRS did not have authority, control, or responsibility over the FPS post orders. IRS also noted that it is in the process of transitioning all guard service protection to FPS for all IRS facilities nationwide. In addition, IRS stated that by December 2019, it will update the IRM to reflect the necessary guidance for service center guards and FMSS physical security specialists to know (1) whom the guards are to contact to report lighting outages and (2) how lighting outages are to be documented and tracked until resolved.</p>		
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>	GAO-12-683R	Closed
Action taken:	<p>In May 2016, IRS reassessed the risks at its Taxpayer Assistance Centers (TAC) where employees process taxpayer remittances through the electronic check presentment system and adjust taxpayer accounts. In January 2018, IRS updated the relevant IRM sections to reflect the conclusions from its risk assessment, including specifying the appropriate level of access allowed for TAC employees who process payments. IRS's actions sufficiently address the intent of our recommendation.</p>		
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>	GAO-13-420R	Open
Action taken:	<p>IRS's actions to address this recommendation are ongoing. During fiscal year 2018, the Large Business and International (LB&I) and the Tax Exempt and Government Entities (TE/GE) organizations, in coordination with the IT organization, performed risk assessments to determine the appropriate level of IDRS access that should be granted to the employees who handle hard-copy taxpayer receipts and related sensitive taxpayer information as part of their job responsibilities, and developed action plans accordingly. In addition, IRS stated that by October 2019, the Taxpayer Advocate Service (TAS) and Small Business/Self-Employed (SB/SE) 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. IRS also stated that based on the results of the assessments, 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>	GAO-13-420R	Open

ID	Recommendation per audit area	Source report	Status
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. In January 2018, IRS updated the IRM to reflect the conclusions from its risk assessment of the TACs, including specifying the appropriate level of access allowed for TAC employees who process payments. In addition, during fiscal year 2018, the LB&I organization performed a risk assessment. Based on the results, it revised procedures and desk guides to include specific measures that implement separation of duties and create limitations on the use of IDRS command codes. IRS stated that by October 2020, the TAS, TE/GE, and SB/SE organizations will work with the IT organization to ensure that the applicable IRM section(s) are revised for any policy changes on (1) risk mitigation, including specifying the appropriate level of IDRS access that should be allowed, and (2) risk acceptance for affected employee groups, as needed.</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>	GAO-13-420R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. In January 2018, IRS updated the IRM to reflect the conclusions from its risk assessment of the TACs, including specifying the appropriate level of access allowed for TAC employees who process payments. IRS stated that in November 2018, the LB&I organization developed tools to track and monitor the assignment of IDRS command codes, and it developed procedures for completing monthly validations of IDRS command codes for all users and for requiring a manager's authorization prior to adding IDRS command codes to any user's profile. IRS also stated that by October 2020, its TAS, TE/GE, and SB/SE organizations will work with the IT organization to establish procedures to prevent affected employees from gaining access to command codes not required as part of their designated job duties, as needed.</p>		
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>	GAO-15-480R	Open
	<p>Action taken:</p> <p>During fiscal year 2018, IRS took various actions to address this recommendation. Specifically, in July 2018, IRS established a process within the IRM requiring the documented completion of designated training for IRS contractors and non-IRS contractors before they are granted unescorted facility access. In August 2018, FMSS also established standard operating procedures to further define the roles and responsibilities related to these training requirements. In September 2018, FMSS communicated in an <i>IRS Headline News</i> article the rules for non-IRS contractors requesting unescorted access, including the requirement for unauthorized access awareness training. Since IRS completed these actions after we had already performed our fiscal year 2018 internal control testing, we will evaluate IRS's actions to address this recommendation during our fiscal year 2019 audit.</p>		
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>	GAO-15-480R	Open
	<p>Action taken:</p> <p>In August 2018, FMSS established standard operating procedures to further define the roles and responsibilities related to the training requirements for non-IRS contractors. In addition, in September 2018, FMSS notified its employees of the requirements in the standard operating procedures, including the requirement to verify that all unescorted access requirements</p>		

ID	Recommendation per audit area	Source report	Status
	have been met before unescorted access is permitted. Since IRS completed these actions after we had already performed our fiscal year 2018 internal control testing, we will evaluate IRS's actions to address this recommendation during our fiscal year 2019 audit.		
15-08	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.	GAO-15-480R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. IRS stated that during fiscal year 2017, it held a face-to-face meeting with Submission Processing executives, staff, and the Receipt and Control Operation managers from all five SCCs to identify and analyze the residual risks associated with candling at the SCCs, develop ways to mitigate those risks, and improve the effectiveness of the Campus Security Scorecard Review. IRS also stated that as a result of the meeting, it developed an action plan to resolve the residual risks associated with candling at the SCCs, which it plans to complete by December 2019.</p>		
16-02	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.	GAO-16-457R	Open
	<p>Action taken:</p> <p>In September 2018, IRS completed an analysis to determine what, if any, next steps needed to be taken to prevent Employment Operations staff from allowing potential employees to enter on duty without approved adjudication determinations. Based on its review, and the procedural revisions it made in August 2018 related to the determinations of suitability, IRS determined that no additional actions were required to address this recommendation. Since IRS completed these actions near the end of fiscal year 2018, we will evaluate IRS's actions to address this recommendation during our fiscal year 2019 audit.</p>		
16-03	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.	GAO-16-457R	Open
	<p>Action taken:</p> <p>In fiscal year 2018, IRS completed an analysis of the procedures related to unsuitable hires that were erroneously allowed to enter on duty, and it determined that the procedures needed improvement. In August 2018, IRS revised the procedures to include five detailed steps; timelines; and a decision chart, which describes the options for addressing suitability or conduct concerns arising out of an investigation. Since IRS revised these procedures near the end of fiscal year 2018, we will evaluate IRS's actions to address this recommendation during our fiscal year 2019 audit.</p>		
16-04	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.	GAO-16-457R	Open

ID	Recommendation per audit area	Source report	Status
	<p>Action taken:</p> <p>During fiscal year 2018, the FMSS organization developed a mandatory annual training course for all physical security specialists and managers involved in the duress alarm validation and testing process to reinforce related alarm policies and procedures. In addition, in August 2018, IRS issued standard operating procedures to provide guidance for the notification, testing, and maintenance of the intrusion detection system and duress alarms at IRS locations. However, during our fiscal year 2018 audit, we identified an instance where a physical security specialist involved in the duress alarm validation and testing process did not complete required training. We also found instances where employees did not follow procedures related to the duress alarm validation and testing process.</p>		
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>	GAO-17-454R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. During fiscal year 2018, the Research, Applied Analytics and Statistics organization created an IRM review and certification requirement to reasonably assure that all IRM sections are reviewed annually to align with the current control procedures and guidance that IRS personnel are implementing. In addition, the SB/SE and TE/GE organizations reviewed and analyzed the results of their involvement in the annual IRM certification process. Based on the results of their analysis, the organizations developed an action plan to allow their organizations to achieve substantial compliance with the requirement. IRS stated that by December 2019, the SB/SE and TE/GE organizations will complete their action plans. IRS also stated that in fiscal year 2019, the LB&I organization will review and analyze the results of its involvement in the annual IRM certification process. Based on the results of its analysis, it will develop an action plan that will allow the organization to achieve substantial compliance with the requirement.</p>		
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>	GAO-17-454R	Closed
	<p>Action taken:</p> <p>In April 2017, IRS updated the CFO IRM section to align the definition of tax gap with the current understanding that IRS personnel follow. In addition, in December 2017, the Privacy, Governmental Liaison and Disclosure organization removed the tax gap definition from its IRM section. IRS's actions sufficiently address our recommendation.</p>		
18-03	<p>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 of internal control activities across all work shifts, particularly during peak seasons, (b) safeguarding of internal control activities for the appropriate use and destruction of hard-copy taxpayer information, and (c) the results of relevant functional level reviews.</p>	GAO-18-393R	Open

ID	Recommendation per audit area	Source report	Status
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2019, it will develop and implement policies in the IRM for conducting and monitoring the Submission Processing internal control review.</p>		
18-04	<p>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.</p> <p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. In August 2018, IRS developed and issued interim guidance establishing policy for (1) conducting and monitoring the AMC review, (2) review frequency by facility, (3) developing the Corrective Action Report, and (4) tracking the status of the corrective actions until fully implemented. IRS stated that by July 2020, it will add guidance to the applicable IRM establishing policy for conducting and monitoring the AMC reviews as described in the interim guidance.</p>	GAO-18-393R	Open
18-05	<p>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.</p> <p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. In August 2018, IRS (1) developed and issued interim guidance establishing requirements for conducting the AEHR review and how it should be performed, results monitoring, and ensuring that corrective actions for deficiencies are tracked until fully implemented and (2) established standard operating procedures providing further clarification of the process. IRS stated that by August 2020, it will update the applicable IRM establishing policy for conducting the AEHR reviews as described in the interim guidance.</p>	GAO-18-393R	Open
Refunds			
16-07	<p>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.</p> <p>Action taken:</p> <p>IRS stated that during the Wage and Investment (W&I) organization's site visits, it determined that a major reason staff did not always comply with IRS's established policies and procedures related to initiating, monitoring, and reviewing the monitoring of manual refunds was insufficient training when new managers or leads are hired. As a result, IRS said that the W&I organization will host monthly meetings on all campuses to focus on manual refund issues. According to IRS, by holding these meetings, along with its annual site visits, it will better ensure that the applicable guidelines are understood and followed. However, during our fiscal year 2018 audit, we identified instances where staff did not comply with IRS's policies and</p>	GAO-16-457R	Open

ID	Recommendation per audit area	Source report	Status
	procedures related to monitoring and reviewing the monitoring of manual refunds. We will continue to evaluate IRS's actions to address this recommendation during our fiscal year 2019 audit.		
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.	GAO-16-457R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2018, it developed and provided interim training to COs on their roles and responsibilities related to certifying manual refunds for payment, including requirements to review supporting documentation. In addition, IRS stated that by August 2019, it plans to develop a training course for COs that will be provided annually.</p>		
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.	GAO-16-457R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2019, it plans to identify the cause of and implement a solution for dealing with the periodic backlogs of ICO inventory.</p>		
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.	GAO-17-454R	Open
	<p>Action taken:</p> <p>IRS's actions to address this recommendation are ongoing. IRS stated that in fiscal year 2019, 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.</p>		
Net cost presentation			
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.	GAO-17-454R	Closed
	<p>Action taken:</p> <p>The CFO organization documented the existing procedures to periodically review the process for determining the intragovernmental and public costs for each program. These procedures will be used if OMB Circular A-136 is revised to reinstate the requirement to report the intragovernmental and public costs for each major program in the notes to the financial statements. IRS's actions sufficiently address our recommendation.</p>		
Property and equipment			
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.	GAO-16-457R	Open
	<p>Action taken:</p> <p>IRS established the Asset Management Program Monitoring and Review 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</p>		

ID	Recommendation per audit area	Source report	Status
	data elements for non-IT assets to verify that they are correct and updated. However, during our fiscal year 2018 floor-to-book inventory testing, we identified exceptions where (1) a key detailed information element (e.g., building code) for P&E assets was not properly recorded in KISAM and (2) P&E assets found on the floor did not have asset records in KISAM.		
16-14	Design a process to reasonably assure the adequacy of detailed supporting information for tangible P&E amounts recorded in the general ledger.	GAO-16-457R	Closed
	<p>Action taken:</p> <p>As of December 2017, IRS implemented an Asset Accounting Module (AAM) as part of the Integrated Financial System, which functions as a subsidiary ledger containing asset records supporting the amounts recorded in the general ledger for the various P&E asset classes. During our fiscal year 2018 walk-throughs, we observed and confirmed with IRS officials that AAM had been fully implemented. During our interim testing, we verified that IRS conducts (1) reconciliations between all P&E asset balances in its general ledger and the AAM P&E balances and (2) reviews to reasonably assure that the current year tangible P&E acquisitions recorded in the general ledger are also recorded in AAM and KISAM. In addition, we reviewed AAM and KISAM asset records for tangible P&E selected during our acquisitions interim testing and did not identify any exceptions. IRS's actions sufficiently address our recommendation.</p>		
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.	GAO-17-454R	Open
	<p>Action taken:</p> <p>Effective April 2018, IRS established the <i>FMSS Property and Asset Management Desk Guide</i>, which contains guidelines as to what events constitute removal from IRS premises and the disposal date that should be recorded in its inventory system. However, during our fiscal year 2018 book-to-floor inventory testing and disposals testing, we identified exceptions where the disposal dates were not timely updated in KISAM.</p>		

Legend:

- AEHR: All Events History Report
- AMC: Audit Management Checklist
- CFO: Chief Financial Officer
- CO: certifying officer
- FMSS: Facilities Management and Security Services
- HCO: Human Capital Office
- ICO: Input Correction Operation
- IDRS: Integrated Data Retrieval System
- IRM: Internal Revenue Manual
- IRS: Internal Revenue Service
- IT: Information Technology
- KISAM: Knowledge, Incident/Problem, Service Asset Management
- OMB: Office of Management and Budget
- P&E: property and equipment
- SCC: service center campus

Source: GAO evaluation of the status of recommendations to IRS as of September 30, 2018. | GAO-19-412R

Enclosure II: Comments from the Internal Revenue Service



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

April 29, 2019

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-19-412R). We are pleased that GAO acknowledged our progress in addressing our financial management challenges and agreed to close seven prior year financial management recommendations. We continue to implement processes to prevent or mitigate internal control deficiencies and improve financial management.

As noted by GAO in the opinion report, IRS made important progress in addressing the material weakness in internal control over unpaid assessments that resulted in the downgrade to a significant deficiency. This downgrade is a milestone accomplishment and represents many years of diligent work and dedication by IRS staff. During FY 2018, the IRS also continued to strengthen internal control over financial reporting systems and accounting for property, plant and equipment in the general ledger. 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 that reads "Charles P. Rettig".

Charles P. Rettig

Enclosure

Enclosure

**GAO Recommendations and IRS Responses to
GAO FY 2018 Management Report
“Improvements Are Needed to Enhance the Internal Revenue Service’s
Internal Control over Financial Reporting”
GAO-19-412R**

Recommendation #1: We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials implement the necessary actions to effectively address the two primary causes of the significant deficiency in IRS’s internal control over unpaid assessments. These actions should (1) resolve the system limitations affecting the recording and maintenance of reliable and appropriately classified unpaid assessments and related taxpayer data to support timely and informed management decisions, and enable appropriate financial reporting of unpaid assessment balances throughout the year; and (2) identify the control deficiencies that result in significant errors in taxpayer accounts and implement control procedures to routinely and effectively prevent, or detect and correct such errors. (Recommendation 19-01)

Comments: The IRS agrees with this recommendation. The Chief Financial Officer organization agrees that actions need to occur to address the two primary causes of the significant deficiency in IRS’s internal control over unpaid assessments through (1) resolving the system limitations affecting the recording and maintenance of reliable and appropriately classified unpaid assessments and taxpayer data in accordance with federal accounting standards, and (2) implementing control procedures to correct significant errors in taxpayer accounts routinely and effectively; however, the IRS is unable to commit to implementing a corrective action due to budgetary constraints. This recommendation will be placed on HOLD in the JAMES system until funds are available. When resources become available, the IRS will complete a long-term strategy and plan for modernizing the information technology components of the unpaid assessments deficiency and establish a timeframe for completing full implementation.

Recommendation #2: We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials document and implement a formal comprehensive strategy to provide reasonable assurance concerning its nationwide coordination, consistency and accountability for internal control over key areas of physical security. This strategy should include nationwide improvements for (1) coordinating among all the functional areas involved in physical security; (2) implementing and monitoring the effectiveness of physical security policies, procedures and internal controls; and (3) ongoing communication in identifying, documenting, and taking corrective action to resolve underlying control issues that impact IRS’s facilities. (Recommendation 19-02)

Comments: The IRS agrees with this recommendation.

- By March 2020, the Facilities Management and Support Services (FMSS) organization will create and document a strategy to provide reasonable assurance concerning its nationwide coordination, consistency and accountability for internal control over key areas of physical security. This strategy will include nationwide improvements for (1) coordinating among all the functional areas involved in FMSS physical security programs, (2) implementing and monitoring the effectiveness of physical security policies, procedures and internal controls, and (3) ongoing communication in identifying, documenting and taking corrective action to resolve underlying control issues that impact IRS's facilities.
- By March 2021, the FMSS organization will implement the nationwide strategy throughout the organization to address (1) coordination amongst all the functional areas involved in FMSS physical security programs, (2) implementation and monitoring of the effectiveness of physical security policies, procedures and internal controls, and (3) ongoing communications in identifying, documenting and taking corrective action to resolve underlying control issues that impact IRS's facilities.

Recommendation #3: The Commissioner of Internal Revenue should ensure that the appropriate IRS officials determine the reasons staff did not consistently comply with IRS's existing requirement for maintaining an emergency contact list at all of its facilities, and, based on this determination, establish a process to enforce compliance with the requirement. (Recommendation 19-03)

Comments: The IRS agrees with this recommendation.

- By September 2019, the FMSS organization will obtain feedback from its operations management staff to determine the reasons staff did not consistently comply with IRS's existing requirement to maintain an emergency contact list at all IRS facilities.
- By December 2019, the FMSS organization will establish a process to better enforce compliance with the requirement to maintain an emergency contact list at all IRS facilities based on the results of the feedback obtained.

Recommendation #4: The Commissioner of Internal Revenue should ensure that appropriate IRS officials establish and implement policies and procedures requiring corrective actions be documented in the Alarm Maintenance and Testing Certification Report for malfunctioning alarms identified in the annual alarm tests. (Recommendation 19-04)

Comments: The IRS agrees with this recommendation.

- By October 2019, the FMSS organization will update IRM 10.2.14.9.2, Methods of Providing Protection, and SOP 19-007, Alarm Notification, Testing and Maintenance, to reflect the requirement to use the Alarm Maintenance and

Testing Certification Report to document alarm testing results, including any malfunctioning alarms and related corrective actions taken, as appropriate.

- By October 2019, the FMSS organization will review the Alarm Maintenance and Testing Certification Report Form and add any additional instructions and fields to document the specific alarms tested, the testing results and related corrective actions taken, as appropriate.

Recommendation #5: The Commissioner of Internal Revenue should ensure that the appropriate IRS officials establish and implement policies or procedures, or both, to provide reasonable assurance that the video surveillance systems at all IRS facilities record activity at the correct time and are properly secured. The policies or procedures should include periodic checks and adjustments, as needed, as part of the annual service and maintenance of security equipment and systems. (Recommendation 19-05)

Comments: The IRS agrees with this recommendation. By November 2019, the FMSS organization will develop, document and implement protocols (policies and/or procedures) to provide reasonable assurance for the accuracy and physical security of the video surveillance systems at all IRS facilities by including periodic checks and adjustments, as needed, as part of the annual service and maintenance of security equipment.

Recommendation #6: We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials update and implement policies or procedures, or both, to clarify (1) who is responsible for conducting the annual review of the visitor access logs, (2) the date by which the review is to be conducted, and (3) how the review should be documented. (Recommendation 19-06)

Comments: The IRS agrees with this recommendation.

- By October 2019, the Information Technology (IT) organization will update and implement policies and/or procedures to clarify (1) who is responsible for conducting the annual review of the visitor access logs, (2) the date by which the review is to be conducted, and (3) how the review should be documented.
- By October 2019, the Criminal Investigation organization, based on IT guidance, will update and implement CI policies and/or procedures to clarify (1) who is responsible for conducting the annual review of the visitor access logs, (2) the date by which the review is to be conducted, and (3) how the review should be documented.

Recommendation #7: We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials (1) identify the reason IRS's policies and procedures related to transmittal forms were not always followed, and (2) design and

implement actions to provide reasonable assurance that SB/SE units comply with these policies and procedures. (Recommendation 19-07)

Comments: The IRS agrees with this recommendation.

- By December 2019, the Small Business/Self-Employed (SB/SE) Examination organization will identify the reason that IRS's policies and procedures for transmittal forms were not followed.
- By June 2020, the SB/SE Examination organization will add guidance to its Examination field IRMs, based on research conducted, to clarify and supplement the Servicewide guidance for the appropriate control, monitoring and review of Forms 3210, Document Transmittal, used to transmit packages containing Personally Identifiable Information.
- By January 2020, the SB/SE Collection organization will identify the reason that IRS's policies and procedures for transmittal forms were not always followed and will design and implement actions to assure that SB/SE Collection units comply with these policies and procedures.

Recommendation #8: We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials update and implement policies or procedures, or both, to clearly define the roles and responsibilities of second-level managers and IDRS Security Account Administrators for validating the information on USR designation forms, including specifying how the information should be validated. (Recommendation 19-08)

Comments: The IRS agrees with this recommendation.

- By June 2019, the IT organization will update IRS's Integrated Data Retrieval System (IDRS) security policy to ensure that the IDRS account administration process complies with IRS's personnel security policy outlined in IRM 10.23.3, Personnel Security, Contractor Investigations.
- By November 2019, the IT organization will update Form 13230, IDRS Unit Security Designation, to define clearly the roles and responsibilities of second-level managers and IDRS security account administrators for validating the information on Unit Security Representative (USR) designation forms, including how the information should be validated.
- By November 2019, the IT organization will update and/or implement policies and procedures to clearly define the roles and responsibilities of second-level managers and IDRS security account administrators for validating the information on USR designation forms, including how the information should be validated.

Recommendation #9: We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials update and implement procedures to clearly specify the tax refund data elements that PVS COs are required to verify before certifying the tax refunds in SPS. (Recommendation 19-09)

Comments: The IRS agrees with this recommendation. By July 2019, the IT organization will update and implement procedures to specify clearly the tax refund data elements that processing validation section certifying officers are required to verify before certifying the tax refunds in the Secure Payment System (SPS).

Recommendation #10: The Commissioner of Internal Revenue should ensure that the appropriate IRS officials establish and implement a review process to provide reasonable assurance that the RSNs entered into the ISRP system and posted to the master files by Data Conversion key entry operators are correct. (Recommendation 19-10)

Comments: The IRS agrees with this recommendation. By December 2019, the Wage & Investment (W&I) organization will establish and implement a review process to provide reasonable assurance that the Refund Schedule Numbers (RSN) on Form 3753, Manual Refund Posting Voucher, are transcribed accurately into the Integrated Submission and Remittance Processing (ISRP) system.

Recommendation #11: The Commissioner of Internal Revenue should ensure that the appropriate IRS officials implement a validity check in the ISRP system to confirm that RSNs entered by Data Conversion key entry operators have the required 14 digits. (Recommendation 19-11)

Comments: The IRS agrees with this recommendation.

- By December 2019, the W&I organization will develop business requirements for the programming changes needed to validate systemically the RSNs input to the ISRP and will submit those requirements to the IT organization through the Unified Work Request (UWR) process.
- The W&I organization agrees that implementation of the UWR for programming changes needed to validate systemically the RSNs input into the ISRP system needs to occur, however, the IRS is unable to commit to implementing a corrective action due to budgetary constraints. This recommendation will be placed on HOLD in the JAMES system until funds are available.

Recommendation #12: We recommend that the Commissioner of Internal Revenue ensure that the appropriate IRS officials update and implement policies or procedures, or both, to require that the reviewers follow up with the tax examiners to verify that the errors made by tax examiners in working a case related to suspicious or questionable tax returns are corrected. (Recommendation 19-12)

Comments: The IRS agrees with this recommendation. By April 2020, the W&I organization will update and implement policies and/or procedures requiring that reviewers follow up with tax examiners to verify that the errors made by tax examiners in working a case related to suspicious or questionable tax returns are corrected.

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: Nina Crocker (Assistant Director), Kareen Borhaug, Ricky Cavazos, Stephanie Chen, Kristen Collins, Liliam Coronado, Joseph Crays, Charles Fox, Michael Reed, Kevin Scott, Sunny Stanley, and Monasha Thompson.

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