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

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November 10, 2021

The Honorable Janet L. Yellen
Secretary of the Treasury

Financial Audit: IRS's FY 2021 and FY 2020 Financial Statements

Dear Madam Secretary:

This report transmits the GAO auditor's report on the results of our audits of the fiscal years 2021 and 2020 financial statements of the Internal Revenue Service (IRS), which is incorporated in the enclosed *Internal Revenue Service Financial Report for Fiscal Year 2021*.

As discussed more fully in the auditor's report that begins on page 35 of the enclosed financial report, we found

- IRS's financial statements as of and for the fiscal years ended September 30, 2021, and 2020, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although certain internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2021; and
- no reportable noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

During our audit, we continued to identify significant deficiencies in internal control over financial reporting concerning IRS's unpaid assessments and financial reporting systems. These deficiencies merit attention by those charged with governance of IRS.[1]

The Chief Financial Officers Act of 1990 (CFO Act), as amended by the Government Management Reform Act of 1994 (GMRA), requires the annual preparation and audit of organization-wide financial statements of executive branch departments, including the

Department of the Treasury of which IRS is a component.[2] GMRA also requires audited financial statements of components of executive branch departments and agencies as

[1]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A 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.

[2]See the Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990), codified, in relevant part, as amended, at 31 U.S.C. § 3521(g); see also the Government Management Reform Act of 1994, Pub. L. No. 103-356, 108 Stat. 3410 (Oct. 13, 1994), codified, in relevant part, as amended, at 31 U.S.C. § 3515(c).

designated by the Director of the Office of Management and Budget (OMB). IRS is one of these designated components. In accordance with the authority conferred by the CFO Act, as amended by GMRA, we have audited IRS's financial statements because of the significance of IRS's tax collections to the consolidated financial statements of the U.S. government, which GAO is required to audit.

The Consolidated Appropriations Act, 2021, enacted in December 2020, and the American Rescue Plan Act of 2021, enacted in March 2021, as well as other Coronavirus Disease 2019 (COVID-19) pandemic relief laws, contained a number of provisions, including the second and third rounds of direct payments (i.e., economic impact payments) totaling over $569 billion in fiscal year 2021, for eligible individuals to address financial stress caused by the COVID-19 pandemic.[3] As part of monitoring and oversight of the federal government's efforts to prepare for, respond to, and recover from the COVID-19 pandemic, we have issued a number of reports on federal agencies' implementation of COVID-19 pandemic relief laws, including reports providing information on, and recommendations to strengthen, IRS's implementation of the tax-related provisions.[4] Similar to our prior year findings for the processing of the first round of economic impact payments, our work in fiscal year 2021 found that IRS faced challenges issuing the second and third rounds of payments to certain eligible recipients and preventing improper payments.

We are sending copies of this report to the Chairman and Vice Chairman of the Joint Committee on Taxation, the Chairmen and Ranking Members of the Senate Committee on Finance and the House Committee on Ways and Means, and other interested congressional committees and subcommittees. We are also sending copies of this report to the Commissioner of Internal Revenue, 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 https://www.gao.gov.

[3]Pub. L. No. 116-260, § 272, 134 Stat. 1182, 1965-1976 (Dec. 27, 2020); Pub. L. No. 117-2, § 9601, 135 Stat. 4, 138-144 (Mar. 11, 2021).

[4]GAO, *COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, GAO-22-105051 (Washington, D.C.: Oct. 27, 2021); *COVID-19: Continued Attention Needed to Enhance Federal Preparedness, Response, Service Delivery, and Program Integrity*, GAO-21-551 (Washington, D.C.: July 19, 2021); *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, GAO-21-387 (Washington, D.C.: Mar. 31, 2021); *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, GAO-21-265 (Washington, D.C.: Jan. 28, 2021); and *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, GAO-21-191 (Washington, D.C.: Nov. 30, 2020).

If you or your staff have any questions concerning this report, please contact me at (202) 512-3406 or simpsondb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,

Dawn B. Simpson
Director
Financial Management and Assurance

Enclosure

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