

Why GAO Did This Study

In its role as the nation's tax collector, IRS has a demanding responsibility to annually collect trillions of dollars in taxes, process hundreds of millions of tax and information returns, and enforce the nation's tax laws.

Each year, as part of the annual audit of IRS's financial statements, GAO makes recommendations to address control deficiencies identified during the audit and follows up on the status of IRS's efforts to address the control deficiencies GAO identified in previous years' audits. The purpose of this report is to (1) provide an overview of the financial management challenges still facing IRS, (2) provide the status of financial audit-related recommendations and the actions needed to address them, and (3) highlight the relationship between GAO's recommendations and internal control activities central to IRS's mission and goals.

What GAO Recommends

GAO is not making any recommendations in this report. In commenting on a draft of this report, the IRS Commissioner stated that the agency is committed to implementing appropriate improvements to maintain sound financial management practices.

INTERNAL REVENUE SERVICE

Status of GAO Financial Audit and Related Financial Management Recommendations

What GAO Found

The Internal Revenue Service (IRS) has made significant progress in improving its internal controls and financial management since its first financial statement audit in 1992, as evidenced by 12 consecutive years of clean audit opinions on its financial statements, the resolution of several material control deficiencies, and actions resulting in the closure of over 300 financial management recommendations. This progress has been the result of hard work throughout IRS and sustained commitment at the top levels of the agency. However, IRS still faces significant financial management challenges in (1) resolving its remaining material weaknesses and significant deficiency in internal control, (2) developing outcome-oriented performance metrics, and (3) correcting numerous other control deficiencies, especially those relating to safeguarding tax receipts and taxpayer information. At the beginning of GAO's audit of IRS's fiscal year 2011 financial statements, 77 recommendations from prior audits remained open because IRS had not fully addressed the underlying issues. During the fiscal year 2011 financial audit, IRS took actions that GAO considered sufficient to close 38 recommendations. At the same time, GAO identified additional control deficiencies resulting in 30 new recommendations. In total, 69 recommendations remain open. GAO has also identified numerous control deficiencies and made recommendations related to information security that have been reported separately and are not included in this report because of the sensitive nature of many of those control deficiencies.

To assist IRS in evaluating and improving internal controls, GAO categorized the 69 open recommendations by various internal control activities, which, in turn, were grouped into three broad control categories.

Summary of Recommendations Grouped by Control Category

	Open at the beginning of 2011	Closed during 2011 audit	New from 2011 audit	Total remaining open
Safeguarding of assets and security activities	29	12	1	18
Proper recording and documenting of transactions	30	18	17	29
Effective management review and oversight	18	8	12	22
Total	77	38	30	69

Source: GAO.

The continued existence of control deficiencies that gave rise to these recommendations represents a serious challenge for IRS. Effective implementation of GAO's recommendations could greatly assist IRS in improving its internal controls and achieving sound financial management, which are integral to effectively carrying out its tax administration responsibilities.