



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

April 30, 2026

The Honorable Scott Bessent  
Secretary of the Treasury

**IRS Financial Reporting: Improvements Needed in Information System and Other Controls**

Dear Mr. Secretary:

On January 20, 2026, we issued our auditor’s report that included the results of our audits of the Internal Revenue Service’s (IRS) fiscal year 2025 financial statements and of its internal control over financial reporting as of September 30, 2025, including information system controls (fiscal year 2025 audits).<sup>1</sup>

We reported that although IRS could improve certain internal controls, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2025. Those controls provided reasonable assurance that misstatements material to IRS’s financial statements would be prevented, or detected and corrected, on a timely basis.

Our fiscal year 2025 audits identified a continuing significant deficiency<sup>2</sup> in internal control over financial reporting concerning IRS’s unpaid assessments.<sup>3</sup> We also identified other deficiencies in IRS’s internal control over financial reporting that we did not consider to be material weaknesses or significant deficiencies. Nevertheless, these deficiencies warrant IRS management’s attention.

During fiscal year 2025, IRS’s workforce decreased by approximately 25 percent. A majority of the more than 25,000 employees who separated from IRS in fiscal year 2025 participated in a voluntary separation program, such as the Deferred Resignation Program (DRP) or Treasury

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<sup>1</sup>GAO, *Financial Audit: IRS’s FY 2025 Financial Statements*, [GAO-26-107977](#) (Washington, D.C.: Jan. 20, 2026).

<sup>2</sup>A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<sup>3</sup>An unpaid assessment is an enforceable claim against a taxpayer for which specific amounts are due, have been determined, and the person(s) or entities from which a tax is due have been identified. See implementing guidance in the *Internal Revenue Manual*, 1.34.4.1.6(1) p, “Terms/Definitions” (May 15, 2025).

Deferred Resignation Program (TDRP).<sup>4</sup> These programs offered employees incentives to leave the organization. For example, IRS placed employees approved to participate in DRP or TDRP on administrative leave with pay and benefits until their official separation date, which was typically September 30, 2025.

While IRS demonstrated its commitment to addressing existing control deficiencies, significant changes to IRS's workforce during fiscal year 2025 contributed to the new control deficiencies identified. Moreover, the Treasury Inspector General for Tax Administration has identified "managing a reduced workforce and budget" as a top management and performance challenge for IRS for fiscal year 2026. It will be important for IRS management to build on the progress made and to sustain focus on improving the agency's internal control over financial reporting.

This report is intended for IRS management's use and presents the new control deficiencies we identified during our fiscal year 2025 audits. Specifically, this report presents detailed information on the new nonsensitive control deficiency we identified and our associated nonsensitive recommendation to address it. This report also presents summarized results of our follow-up on IRS's corrective actions to address recommendations from our prior reports related to internal control over financial reporting that remained open as of September 30, 2024, including detailed information on the nonsensitive recommendations.<sup>5</sup>

This report is a public version of a LIMITED OFFICIAL USE ONLY report that we issued concurrently. The LIMITED OFFICIAL USE ONLY report presents detailed information on the new sensitive control deficiencies we identified during our fiscal year 2025 audits and our associated sensitive recommendations to address them. The LIMITED OFFICIAL USE ONLY report also presents detailed information on the results of our follow-up on IRS's corrective actions to address all recommendations, sensitive and nonsensitive in nature, from our prior reports related to internal control over financial reporting that remained open as of September 30, 2024.<sup>6</sup> IRS deemed much of the information in the LIMITED OFFICIAL USE ONLY report to be sensitive information that must be protected from public disclosure. Although the information provided in this report is more limited, the report addresses the same objectives as the LIMITED OFFICIAL USE ONLY report and uses the same methodology.

## Results in Brief

During our fiscal year 2025 audits, we identified five new deficiencies in internal control over financial reporting. Four of these new deficiencies are sensitive in nature and related to information systems, consisting of three access control deficiencies and one security management control deficiency. The remaining new deficiency was not sensitive in nature and

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<sup>4</sup>In January 2025, the Office of Personnel Management released information on its DRP offering, which allowed federal employees to resign but retain pay and benefits through September 30, 2025, or later if an employee's retirement date was between October 1 and December 31, 2025. In April 2025, IRS partnered with the Department of the Treasury and offered a second deferred resignation opportunity, TDRP, to its employees. This program was similar to the first DRP, including paid leave and benefits until separation from IRS to occur no later than September 30, 2025.

<sup>5</sup>GAO, *IRS Financial Reporting: Improvements Needed in Information System and Other Controls*, [GAO-25-107930](#) (Washington, D.C.: Mar. 18, 2025), and *IRS Financial Reporting: Improvements Needed in Information System and Other Controls*, GAO-25-107929SU (Washington, D.C.: Mar. 18, 2025).

<sup>6</sup>GAO, *IRS Financial Reporting: Improvements Needed in Information System and Other Controls*, GAO-26-108897SU (Washington, D.C.: Apr. 30, 2026).

related to IRS's nonproduction costs, which are part of the financial reporting transaction cycle.<sup>7</sup> We are making one recommendation in this report to address the new control deficiency related to the financial reporting transaction cycle. Enclosure I provides detailed information on the control deficiency and our associated recommendation. In the LIMITED OFFICIAL USE ONLY report, we made four new recommendations to address the sensitive control deficiencies related to information systems.

We also assessed IRS's corrective actions to address 30 recommendations—six transaction cycle, two safeguarding assets, and 22 information system recommendations—related to deficiencies in internal control over financial reporting identified in our prior reports that were open as of September 30, 2024. We determined that IRS completed corrective actions for 14 of the 30 and was in the process of taking corrective actions for the remaining 16. Enclosure II provides the status of the eight recommendations that are nonsensitive in nature from our prior reports related to internal control over financial reporting and detailed information on IRS's corrective actions as of September 30, 2025. IRS completed corrective actions to address five of these eight recommendations. The LIMITED OFFICIAL USE ONLY report contains the status of all recommendations, sensitive and nonsensitive in nature, from our prior reports related to internal control over financial reporting and detailed information on IRS's corrective actions as of September 30, 2025.

The new and continuing control deficiencies related to information systems and safeguarding assets increase the risk of unauthorized access to and modification of data and programs, disclosure of sensitive data, and disruption of critical operations. The new and continuing control deficiencies related to transaction cycles increase the risk of financial statement misstatements. IRS mitigated the potential effect of these control deficiencies primarily through compensating controls that management designed to help detect potential financial statement misstatements.

In commenting on a draft of this report and the LIMITED OFFICIAL USE ONLY report, IRS agreed with our new recommendations. IRS stated that it is committed to implementing improvements dedicated to promoting the highest standard of financial management, internal controls, and information technology security. IRS's comments on this report are reproduced in enclosure III.

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

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, and consistent with our authority to audit statements and schedules prepared by executive agency components, we audited IRS's financial statements because of the significance of IRS's tax collections to the consolidated financial statements of the U.S. government.<sup>8</sup> As part of our fiscal year 2025 audits of IRS's financial statements and of its internal control over financial reporting, we (1) evaluated IRS's internal control over financial reporting and (2) assessed IRS's corrective actions to determine the status of recommendations from our prior reports related to IRS's internal control over financial reporting that were open as of September 30, 2024.

To evaluate IRS's internal control over financial reporting, we reviewed IRS policies and procedures; interviewed IRS management and staff; observed controls in operation; and

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<sup>7</sup>In accordance with federal accounting standards, nonproduction costs are costs that are linked to events other than an entity's production of goods and services. A transaction cycle is a grouping of related accounting applications that process and record a particular type of transaction.

<sup>8</sup>See 31 U.S.C. §§ 331(e)(2), 3515, 3521(g), (i).

conducted tests of controls to determine whether IRS designed, implemented, and operated relevant controls effectively. We based our evaluation on the *Financial Audit Manual*<sup>9</sup> and the *Federal Information System Controls Audit Manual*.<sup>10</sup> During the course of our work, we communicated our findings to IRS management.

We include a full discussion of our scope and methodology in our auditor's report of IRS's fiscal year 2025 financial statements.<sup>11</sup> We performed our fiscal year 2025 audits in accordance with U.S. generally accepted government auditing standards. We believe that our audits provide a reasonable basis for our findings and recommendations in this report and our separately issued LIMITED OFFICIAL USE ONLY report.

## **Five New Deficiencies Identified in IRS's Internal Control over Financial Reporting**

During our fiscal year 2025 audits, we identified five new deficiencies in internal control over financial reporting. Four of these new deficiencies are sensitive in nature and related to information systems, consisting of three access control deficiencies and one security management control deficiency. The remaining new deficiency was not sensitive in nature and related to IRS's nonproduction costs, which are part of the financial reporting transaction cycle. We summarize these five new deficiencies below. We present a more detailed discussion of the control deficiency related to the financial reporting transaction cycle, and our associated recommendation, in enclosure I. In the LIMITED OFFICIAL USE ONLY report, we provide a more detailed discussion of the four sensitive control deficiencies related to information systems and our associated recommendations.

### Information System Access Controls

A basic management objective for any agency is to protect the resources that support its critical operations from unauthorized access. An agency accomplishes this by designing and implementing controls to prevent, limit, and detect unauthorized access to data, programs, equipment, and facilities. Access controls include both logical and physical controls related to (1) protection of system boundaries, (2) identification and authentication, (3) authorization of access permissions, (4) sensitive system resources, (5) audit and monitoring of system activity, and (6) physical security of facilities and computing resources. Appropriately designed and implemented access controls reduce the risk of unauthorized access to and modification of data and programs, disclosure of sensitive taxpayer data, and disruption of critical operations.

We identified three information system control deficiencies in access controls where IRS did not

- have an effective process to recertify user access authorizations for access to the Integrated Financial System, Totally Automated Personnel System, Enterprise File Transfer Utility, Electronic Federal Payment Posting System, Redesigned Revenue Accounting Control System, and Privileged User Management Access System;

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<sup>9</sup>GAO and Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*, vol. 1, [GAO-25-107705](#) (Washington, D.C.: June 2025); *Financial Audit Manual*, vol. 2, [GAO-24-107279](#) (Washington, D.C.: June 2024); and *Financial Audit Manual*, vol. 3, [GAO-25-107707](#) (Washington, D.C.: August 2025). The *Financial Audit Manual* presents a methodology for performing financial statement audits of federal entities in accordance with professional standards.

<sup>10</sup>GAO, *Federal Information System Controls Audit Manual (FISCAM)*, [GAO-24-107026](#) (Washington, D.C.: September 2024). FISCAM presents a methodology for assessing information system controls.

<sup>11</sup>[GAO-26-107977](#).

- consistently revoke user access authorizations in the Business Entitlement Access Request System for employees placed on administrative leave; and
- timely revoke network access privileges for employees placed on administrative leave.

We are making three recommendations in the LIMITED OFFICIAL USE ONLY report to address these control deficiencies.

### Information System Security Management

Security management is the foundation of a security control structure and reflects senior management's commitment to addressing security risks. An effective security management program provides a framework and continuous cycle of activity for assessing risk, developing and implementing security procedures, and monitoring the effectiveness of these procedures. Without a well-designed security management program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

We identified one information system control deficiency in security management where IRS did not remediate in accordance with IRS policy certain known exploited vulnerabilities that the Cybersecurity & Infrastructure Security Agency cataloged.<sup>12</sup>

We are making one recommendation in the LIMITED OFFICIAL USE ONLY report to address this control deficiency.

### Financial Reporting Transaction Cycle

Financial reporting encompasses the processes, systems, and controls involved in compiling and reporting IRS's annual financial statements in accordance with U.S. generally accepted accounting principles. This includes allocating costs to properly present the cost of programs on IRS's Statement of Net Cost. According to federal accounting standards, entities are to separately report costs—if material—that are not linked to the production of goods and services (nonproduction costs).<sup>13</sup> Nonproduction costs include other postemployment benefits, such as severance payments and the continuation of salary, health care, and other benefits, for former or inactive employees. For fiscal year 2025, IRS's nonproduction costs included payroll, accrued leave, and benefit expenses for employees who participated in DRP or TDRP.

We identified one financial reporting transaction cycle control deficiency where IRS did not separately identify nonproduction costs on a draft of its fiscal year 2025 financial statements.

We are making one recommendation to address this control deficiency. See enclosure I for more information.

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<sup>12</sup>The Cybersecurity & Infrastructure Security Agency (CISA) is an operational component of the Department of Homeland Security. CISA leads the national effort to understand, manage, and reduce risk to the nation's cyber and physical infrastructure. CISA maintains the authoritative source of vulnerabilities that have been exploited by documenting these vulnerabilities in the Known Exploited Vulnerability (KEV) catalog. CISA updates the KEV catalog by (1) creating a common vulnerabilities and exposures record, (2) concluding the vulnerability has been exploited or is actively being exploited, and (3) determining there is a clear remediation action for the organization to resolve the vulnerability.

<sup>13</sup>Federal Accounting Standards Advisory Board, *Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts*, FASAB Handbook, Version 24 (revised September 2025).

## Status of Recommendations from Prior Reports

During our fiscal year 2025 audits, we assessed IRS’s corrective actions to address six transaction cycle recommendations, two safeguarding assets recommendations, and 22 information system recommendations related to control deficiencies identified in our prior reports that were open as of September 30, 2024.

We determined that IRS completed corrective actions for 14—four transaction cycle, one safeguarding assets, and nine information system recommendations—and was in the process of taking corrective actions on the remaining 16 that were open as of September 30, 2024.

It is important for IRS management to continue focusing efforts on timely addressing the remaining recommendations related to the deficiencies in internal control over financial reporting.

See table 1 for a summary of the status of recommendations related to internal control over financial reporting as of September 30, 2025. See enclosure II for detailed information on IRS’s corrective actions to address the nonsensitive recommendations and whether the recommendations were open or closed as of September 30, 2025. The separately issued LIMITED OFFICIAL USE ONLY report contains detailed information on IRS’s corrective actions to address all recommendations, sensitive and nonsensitive in nature, from our prior reports related to internal control over financial reporting that were open as of September 30, 2024.

**Table 1: Status of GAO Recommendations to IRS Related to Internal Control over Financial Reporting**

<b>Audit area</b>	<b>Open prior years’ recommendations through the FY 2024 audit</b>	<b>Prior years’ recommendations closed in the FY 2025 audit</b>	<b>New recommendations resulting from the FY 2025 audit</b>	<b>Total open recommendations resulting from the FY 2025 audit</b>
<b>Transaction cycles</b>				
Unpaid assessments	1	—	—	1
Tax refunds	4	4	—	0
Property and equipment	1	—	—	1
Financial reporting	—	—	1	1
<b>Total (transaction cycles)</b>	<b>6</b>	<b>4</b>	<b>1</b>	<b>3</b>
<b>Safeguarding assets</b>	<b>2</b>	<b>1</b>	<b>—</b>	<b>1</b>
<b>Information systems</b>				
<b>Security management</b>	<b>1</b>	<b>—</b>	<b>1</b>	<b>2</b>
<b>Access controls</b>				
Sensitive system resources	3	—	—	3
Audit and monitoring	2	1	—	1
Account management	4	1	3	6
<b>Total (access controls)</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>10</b>
<b>Configuration management</b>				

<b>Audit area</b>	<b>Open prior years' recommendations through the FY 2024 audit</b>	<b>Prior years' recommendations closed in the FY 2025 audit</b>	<b>New recommendations resulting from the FY 2025 audit</b>	<b>Total open recommendations resulting from the FY 2025 audit</b>
Software updates	1	1	—	0
Configuration settings	10	5	—	5
Configuration change control	1	1	—	0
<b>Total (configuration management)</b>	<b>12</b>	<b>7</b>	<b>—</b>	<b>5</b>
<b>Total (information systems)</b>	<b>22</b>	<b>9</b>	<b>4</b>	<b>17</b>
<b>Total</b>	<b>30</b>	<b>14</b>	<b>5</b>	<b>21</b>

Legend: FY = fiscal year; — = no recommendations.

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-26-108898

## Conclusions

The new and continuing control deficiencies related to information systems and safeguarding assets increase the risk of unauthorized access to and modification of data and programs, disclosure of sensitive data, and disruption of critical operations. The new and continuing control deficiencies related to transaction cycles increase the risk of financial statement misstatements. IRS mitigated the potential effect of these control deficiencies primarily through compensating controls that management designed to help detect potential financial statement misstatements. As part of our audits of IRS's fiscal year 2026 financial statements and its internal control over financial reporting as of September 30, 2026, we plan to follow up with IRS on its corrective actions to address our new recommendations and those recommendations from prior reports that remain open.

## Recommendations for Executive Action

To address the new control deficiency identified in this report, we are making one recommendation that we detail in enclosure I. We made four recommendations to address the new control deficiencies related to information systems in our separately issued LIMITED OFFICIAL USE ONLY report.

## Agency Comments

We provided a draft of this report to IRS for comment. In its comments, reproduced in enclosure III, IRS agreed with the new recommendation we are making in this report. IRS stated that it is committed to implementing improvements dedicated to promoting the highest standard of financial management, internal controls, and information technology security.

In a separately issued LIMITED OFFICIAL USE ONLY report, IRS agreed with our four new recommendations to address control deficiencies in information systems.

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This report contains a recommendation to the Commissioner of Internal Revenue. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken or planned on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, the

congressional committees with jurisdiction over the agency programs and activities that are the subject of our recommendations, and GAO not later than 180 days after the date of this report. The head of the agency must also send a written statement 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 [simpsondb@gao.gov](mailto:simpsondb@gao.gov).

We are sending copies of this report to the appropriate congressional committees, the Treasury Inspector General for Tax Administration, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at [simpsondb@gao.gov](mailto:simpsondb@gao.gov). GAO staff members who made key contributions to this report include Vijay D'Souza (Director), Edward Alexander, Jr. (Assistant Director), Jessica Boucher (Assistant Director), Nicole Burkart (Assistant Director), Larry Crosland (Assistant Director), William (Lee) Evans (Assistant Director), Richard (Ryan) Guthrie (Assistant Director), Daniel Swartz (Assistant Director), Luis Alicea, Anastasia Barron, Chantel Bradley, Leland Buggie, Dylan Carr, Alexander Engel, Andrew Erickson, Linda Erickson, Glenn Gambardella, Daniel Harris, Robert Hildebrandt, Deanna Kitchens, Sailaja Ledalla, Andrew Long, Kevin Metcalfe, Rebecca Perkins, John A. Schaefer, James Skornicki, Randy Voorhees, and Landon Western.

Sincerely,

**//SIGNED//**

Dawn B. Simpson  
Director, Financial Management and Assurance

Enclosures – 3

## Enclosure I

### New Transaction Cycle Control Deficiency in IRS's Internal Control over Financial Reporting

This enclosure presents detailed information on the new nonsensitive deficiency in internal control over financial reporting we identified during our audits of the Internal Revenue Service's (IRS) fiscal year 2025 financial statements and of its internal control over financial reporting as of September 30, 2025, and includes our related recommendation.<sup>1</sup> Specifically, this enclosure presents the new transaction cycle control deficiency related to financial reporting. This enclosure also includes our recommendation that, if IRS effectively implements it, should mitigate or correct the deficiency.

#### Financial Reporting

##### 1. Inadequate Procedures for Reporting Nonproduction Costs

**Background.** IRS's Statement of Net Cost presents the net cost of its operations by its major programs, which are Service to the Taxpayer, Enforcement of Tax Legislation, and Transformation of Business Systems. Nonproduction costs include other postemployment benefits, such as severance payments and the continuation of salary, health care, separation incentives, and other benefits, for former or inactive employees.

IRS's nonproduction costs for fiscal year 2025 increased significantly compared to prior years, primarily due to an approximately 25 percent decrease in IRS's workforce. A majority of the more than 25,000 employees who separated from IRS in fiscal year 2025 participated in a voluntary separation program, such as the Deferred Resignation Program (DRP) or Treasury Deferred Resignation Program (TDRP). These programs offered employees incentives to leave the organization. For example, IRS placed employees approved to participate in DRP or TDRP on administrative leave with pay and benefits until their official separation date, which was typically September 30, 2025.

**Condition.** IRS did not properly report nonproduction costs within its draft financial statements. Specifically, IRS did not separately report nonproduction costs, such as payroll, accrued leave, and benefit expenses for employees who participated in DRP or TDRP, in its draft financial statements. We communicated the misstatement to IRS and proposed an adjusting entry to correct it. IRS agreed and made the correction.

**Criteria.** Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, and SFFAS 5, *Accounting for Liabilities of The Federal Government*, provide guidance on accounting for and reporting on nonproduction costs. According to federal accounting standards, entities are to separately report costs—if material—that are not linked to the production of goods and services (nonproduction costs).

**Cause.** IRS's procedures did not include guidance on properly accounting for and reporting on nonproduction costs.

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<sup>1</sup>An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that 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.

## Enclosure I

**Effect.** Without adequate procedures to properly account for and report nonproduction costs, IRS increases the risk that misstatements to its financial statements related to such costs will not be prevented, or detected and corrected, on a timely basis.

**Recommendation for Executive Action.** The Commissioner of Internal Revenue should improve and implement procedures to properly account for nonproduction costs and report nonproduction costs that are material to the financial statements. (Recommendation 1)

## Enclosure II

### Status of Recommendations from Prior Reports

Our audits of the Internal Revenue Service’s (IRS) fiscal year 2025 financial statements and of its internal control over financial reporting as of September 30, 2025, included following up on IRS’s corrective actions to address recommendations from our prior reports related to internal control over financial reporting that remained open as of September 30, 2024. Table 2 provides detailed information on the corrective actions IRS took related to the eight nonsensitive recommendations and indicates whether the recommendations were open or closed as of September 30, 2025. The LIMITED OFFICIAL USE ONLY report contains all recommendations, sensitive and nonsensitive in nature, from our prior reports related to internal control over financial reporting and information on IRS corrective actions as of September 30, 2025. In the legend at the end of the table, we define the abbreviations used.

**Table 2: IRS Corrective Actions Taken and Status of Nonsensitive Recommendations Related to Internal Control over Financial Reporting from Prior Reports as of September 30, 2025**

No.	GAO source report and recommendation number	Recommendation and corrective actions taken	Fiscal year initially identified	Status
<b>Transaction cycles</b>				
<b>Unpaid assessments</b>				
1.	<a href="#">GAO-19-412R</a> , #19-01	<p>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.</p> <p><b>Actions taken:</b></p> <p>During fiscal year 2019, IRS documented the key management decisions in the design and use of the estimation process. However, IRS told us that it placed corrective actions on hold because of competing priorities. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2025, and that this recommendation remains open.</p>	2018	Open
<b>Tax refunds</b>				
2.	<a href="#">GAO-16-457R</a> , #16-07	Determine the reason(s) why staff did not always comply with IRS’s established policies and procedures related to initiating, monitoring, and reviewing the monitoring of manual refunds and, based on this determination, establish a process to better enforce compliance with these requirements.	2015	Closed

## Enclosure II

No.	GAO source report and recommendation number	Recommendation and corrective actions taken	Fiscal year initially identified	Status
		<p><b>Actions taken:</b></p> <p>During our fiscal year 2025 audit, we determined that the process IRS established to enforce compliance with its policies and procedures related to initiating, monitoring, and reviewing the monitoring of manual refunds was adequate. Specifically, IRS automated the process for monitoring manual refunds daily. The process includes a reconciliation of the manual refunds to taxpayer identification numbers to ensure that all cases are monitored each day as required. As a result, we concluded that IRS's corrective actions as of September 30, 2025, were adequate to close this recommendation.</p>		
3.	<a href="#">GAO-19-412R</a> , #19-11	<p>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.</p>	2018	Closed
		<p><b>Actions taken:</b></p> <p>During our fiscal year 2025 audit, we determined that the programming changes IRS implemented in ISRP, along with a supervisory review process to ensure Data Conversion key entry operators enter the required 14-digit RSN into ISRP, was adequate. As a result, we concluded that IRS's corrective actions as of September 30, 2025, were adequate to close this recommendation.</p>		
4.	<a href="#">GAO-20-480R</a> , #20-02	<p>Establish and implement manual refund procedures to direct (1) initiators to document (e.g., record on the taxpayers' accounts or annotate on the related manual refund forms) the justification for bypassing the IAT tool warning related to potential duplicate tax refunds on taxpayers' accounts and (2) managers to monitor whether such warnings were bypassed and review the justifications for reasonableness prior to approving manual refund forms.</p>	2019	Closed
		<p><b>Actions taken:</b></p> <p>During our fiscal year 2025 audit, we determined that IRS established and implemented procedures to (1) direct initiators to document the justification for bypassing the IAT tool warning related to potential duplicate tax refunds on taxpayers' accounts, (2) direct managers to monitor whether they bypassed such warnings, and (3) direct managers to review the justifications for reasonableness prior to approving manual refund forms. As a result, we concluded that IRS's corrective actions as of September 30, 2025, were adequate to close this recommendation.</p>		
5.	<a href="#">GAO-23-106401</a> , #23-02	<p>Review and update IRS's process to provide reasonable assurance that tax examiners comply with the requirement to address and correct error codes 004 and 230.</p>	2022	Closed

## Enclosure II

No.	GAO source report and recommendation number	Recommendation and corrective actions taken	Fiscal year initially identified	Status
<b>Actions taken:</b>				
<p>In fiscal year 2022, IRS issued alerts to tax examiners reminding them to correct coding and transcription errors for error codes 004 and 230. In our fiscal years 2023 and 2024 audits, we continued to find instances of these error codes. During our fiscal year 2025 audit, we determined that the incidence of these error codes had sufficiently decreased in frequency to provide IRS with reasonable assurance that tax examiners comply with the requirements to address and correct the error codes. As a result, we concluded that IRS's corrective actions as of September 30, 2025, were adequate to close this recommendation.</p>				
<b>Property and equipment</b>				
6.	<a href="#">GAO-25-107930</a> , #25-01	<p>Design and implement procedures to monitor the automated depreciation calculations AAM performs through the periodic manual calculation and reconciliation of the depreciation expense for a selection of assets to reasonably assure that depreciation expense is recorded in accordance with IRS's accounting policies.</p>	2024	Open
<b>Actions taken:</b>				
<p>During our fiscal year 2025 audit, IRS told us that it plans to implement procedures to manually calculate depreciation expense and reconcile it to AAM's automated depreciation calculations on a quarterly basis, and it will analyze any differences to ensure compliance with IRS's materiality tolerance levels and accounting policies. IRS officials informed us that they plan to implement this process in September 2026. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2025, and that this recommendation remains open.</p>				
<b>Safeguarding assets</b>				
7.	<a href="#">GAO-15-480R</a> , #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>	2014	Open
<b>Actions taken:</b>				
<p>During fiscal year 2021, IRS developed policies and procedures for monitoring and enforcing training requirements that allow contractors to maintain unescorted access to IRS facilities. However, during our fiscal year 2023 testing, we found that some contracting officer's representatives had not completed the security awareness training forms as required. During our fiscal year 2025 audit, IRS did not provide information on any additional actions taken to address this recommendation or evidence for us to evaluate the effectiveness of actions taken previously. As a result, this recommendation remains open as of September 30, 2025.</p>				
8.	<a href="#">GAO-23-106401</a> , #23-03	<p>Direct the appropriate officials to establish and implement actions to provide reasonable assurance that requests for information are provided in a timely manner as required.</p>	2022	Closed

## Enclosure II

No.	GAO source report and recommendation number	Recommendation and corrective actions taken	Fiscal year initially identified	Status
		<p><b>Actions taken:</b></p> <p>During our fiscal year 2025 audit, we determined that IRS established and implemented actions to provide reasonable assurance that requests for information are provided in a timely manner as required. Beginning in fiscal year 2022, IRS temporarily shifted employees to the Files Function Unit to address backlogs, and IRS stated that it cross-trained staff to ensure that staff were appropriately trained should the need arise. Additionally, we conducted a walk-through of the Files Function Unit at an IRS Submission Processing Center and noted no concerns. We also made multiple requests for documentation throughout the audit that IRS delivered in a timely manner. As a result, we concluded that IRS's corrective actions as of September 30, 2025, were adequate to close this recommendation.</p>		

Legend:

AAM: Asset Accounting Module  
 IAT: Integrated Automation Technologies  
 IRS: Internal Revenue Service  
 ISRP: Integrated Submission and Remittance Processing  
 RSN: refund schedule number  
 Source: GAO. | GAO-26-108898

## Enclosure III

### Comments from the Internal Revenue Service



FRANK J. BISIGNANO  
CHIEF EXECUTIVE OFFICER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

April 14, 2026

Ms. Dawn Simpson  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Simpson:

I am writing in response to the Government Accountability Office (GAO) draft report titled, IRS Financial Reporting: Improvements Needed in Information System and Other Controls (GAO-26-108898).

We are pleased that GAO agreed to close five recommendations from prior years' reports, and we appreciate GAO recognizing our efforts to improve our financial reporting and information system controls. I acknowledge the new recommendation contained in this report, and we look forward to working with GAO to resolve them.

We are committed to implementing improvements dedicated to promoting the highest standard of financial management, internal controls and information technology security. If you have any questions, please contact me or Chief Financial Officer Todd Newnam.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank J. Bisignano".

Frank J. Bisignano  
Chief Executive Officer

Enclosure

## Enclosure III

Enclosure

**IRS's comments on GAO's recommendations as contained in report titled, IRS Financial Reporting: Improvements Needed in Information System and Other Controls (GAO-26-108898)**

Recommendation 1: The Commissioner of Internal Revenue should improve and implement procedures to properly account for non-production costs and report non-production costs that are material to the financial statements. (Recommendation 26-01)

Comments: The IRS agrees with this recommendation.

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