

GAO

Report to the Commissioner of Internal Revenue

July 2002

INTERNAL REVENUE SERVICE

Status of Recommendations From Financial Audits and Related Financial Management Reports



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Abbreviations

ADP	automated data processing
CAP	Custodial Accounting Project
DUPREF	duplicate refunds
EFDS	Electronic Fraud Detection System
EITC	Earned Income Tax Credit
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMS	Financial Management Service
IEI	invitations for expressions of interest
IFS	Integrated Financial System
IPS	Integrated Procurement System
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
ITAMS	Information Technology Asset Management System
JFMIP	Joint Financial Management Improvement Program
LPG	Lockbox Processing Guidelines
NTEU	National Treasury Employees Union
P&E	property and equipment
QRR	Questionable Refund Report
RTS	Request Tracking System
SETS	Security Entry and Tracking System
SFFAS	Statements of Federal Financial Accounting Standards
SOC	sub-object class
SPIF	Single Point Inventory Function
TAC	Taxpayer Assistance Center
TASL	taxpayer account subledger
TFRP	trust fund recovery penalty
WCF	Working Capital Fund



United States General Accounting Office
Washington, D.C. 20548

July 30, 2002

The Honorable Charles O. Rossotti
Commissioner of Internal Revenue

Dear Mr. Rossotti:

This report provides a status of the Internal Revenue Service's (IRS) efforts to implement recommendations we have made based on our audits of IRS's financial statements. In updating the status of these recommendations, we have included the results of our audit of IRS's financial statements for fiscal years 2001 and 2000.¹ This report is being provided to you to (1) assist IRS management in tracking the unresolved issues identified in prior GAO financial audits,² and (2) report on the current status of open audit recommendations detailed in previous GAO financial audit and financial management related reports. In cases where IRS has taken action on open recommendations that did not result in us closing them, we explain why this occurred.

Since our first audit of IRS's financial statements in fiscal year 1992, our audits have identified a number of weaknesses in IRS's financial management operations. In related reports on IRS's internal controls and in management letters, we have recommended corrective action to address those weaknesses. In connection with its efforts to comply with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA), IRS prepares quarterly remedial action plans to address identified internal control weaknesses. These remedial action plans document IRS's approach to addressing each of the financial management related audit recommendations it receives and includes information on actions already taken to address the issues that gave rise to the recommendation.

¹U.S. General Accounting Office, *Financial Audit: IRS's Fiscal Years 2001 and 2000 Financial Statements*, [GAO-02-414](#) (Washington, D.C.: Feb. 27, 2002).

²U.S. General Accounting Office, *Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management*, [GAO-02-35](#) (Washington, D.C.: Oct. 19, 2001).

Appendix I lists (1) recommendations we have made based on our financial audits that we have not previously reported as closed, (2) a synopsis of IRS's planned corrective action and status of each recommendation as reported in its remediation plan as of March 31, 2002, or communicated to us in discussions with management or in IRS's response to our fiscal year 2001 management report,³ and (3) our analysis of whether the recommendation has been implemented based on the work performed during our fiscal year 2001 financial audit. The table also highlights in bold the nine recommendations which we consider to be of the highest priority to assist senior management in the prioritization of its resources to resolve the most pressing financial management challenges facing IRS.

³U.S. General Accounting Office, *Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls*, [GAO-02-746R](#) (Washington, D.C.: July 18, 2002).

Status of Recommendations

In October 2001, we issued a report that provided (1) the status of IRS's efforts to implement prior recommendations as of our fiscal year 2000 financial audit,⁴ and (2) new recommendations based on the results of our fiscal year 2000 financial audit.⁵ In this report, we included 95 audit recommendations that we had not previously reported as being closed, some dating back as far as 1993. Of the 95 recommendations, 24 were closed at the time that report was issued, leaving 71 that were used as a starting point for the appendix of this report. We divided 1 of these open recommendations into its 3 component parts to facilitate tracking, and added 16 new recommendations included in our recently published fiscal year 2001 management report for a total of 89 recommendations.⁶ Based on the results of our recently completed fiscal year 2001 financial audit, we are closing 27 recommendations due to actions IRS has taken to address the issues that gave rise to them. Therefore, as of the date of this report, 62 of our financial management recommendations remain open, 56 of which are short term in nature and 6 of which are long term in nature.⁷

As indicated in appendix I, of the 62 recommendations we consider to be open, IRS considered 16 (26 percent) to be closed. We consider each of these recommendations to be open for one of the following three reasons: (1) IRS has taken recent corrective action to resolve the recommendation, but we have not yet verified implementation of the corrective action, which is a prerequisite to closing the recommendation (1 recommendation), (2) IRS does not agree with the recommendation, but we continue to consider the recommendation valid (4 recommendations), or (3) we found that IRS action taken to date has not been fully effective in addressing the condition that gave rise to the recommendation (11 recommendations).

We believe the open issues under the third category could be resolved with additional management follow-up to ensure that corrective actions are fully effective in resolving the issue they are intended to address. In the interim,

⁴U.S. General Accounting Office, *Financial Audit: IRS' Fiscal Year 2000 Financial Statements*, [GAO-01-394](#) (Washington, D.C.: Mar. 1, 2001).

⁵[GAO-02-35](#).

⁶[GAO-02-746R](#).

⁷Short-term recommendations are defined as those that could be addressed within 2 years. Long-term recommendations are defined as those recommendations expected to require 2 years or more to implement.

the underlying weaknesses will likely continue to exist, impairing the quality and timeliness of IRS's financial information and increasing its exposure to losses, as well as impacting IRS's ability to effectively fulfill its mission of providing top quality service to taxpayers.

We also found that many of the open audit recommendations have been outstanding for an extended period of time, including 3 recommendations that we consider to be of the highest priority. The continued existence of these problems exposes IRS to loss due to errors or theft, and impairs the reliability and availability of the current, accurate financial information management needs to make decisions on an ongoing basis. For example, the 62 open recommendations include the following.

- Nineteen (31 percent) were recommended over 2 years ago. These include 7 that were issued over 3 years ago and 2 that have remained open for over 8 years. Of these 19 recommendations, we consider 11 (58 percent) to be short term in nature.
- Ten (16 percent) relate to a material weakness in IRS's property and equipment (P&E) management. In its FMFIA annual assurance statement, IRS has reported a material weakness in P&E management every year since 1983, but has been unable to successfully implement the corrective actions needed to resolve this material weakness.
- Seven (11 percent) relate to weaknesses in controls intended to safeguard taxpayer receipts and data. We consider all of these recommendations to be short term in nature. These include IRS continuing to hire staff and allow them access to taxpayer receipts and data before the results of their fingerprint checks have been received and approved, and IRS's inability to ensure that the taxpayer receipts and data it receives are properly accounted for and safeguarded. These continued weaknesses expose IRS to unnecessary risk of loss and increase taxpayer exposure to losses from financial crimes committed by individuals who inappropriately gain access to confidential personal information.

IRS has exhibited strong commitment to addressing its ongoing financial management problems and has made improvements in recent years that have resulted in the closing of many recommendations. However, the continued existence of the serious financial management weaknesses that gave rise to the remaining open recommendations represent serious obstacles that IRS needs to overcome in order to achieve effective financial

management and have available accurate, timely financial reporting and other information that is useful for day-to-day decision making. This was the overriding intent of FMFIA, the Chief Financial Officers Act of 1990, FFMA, and other federal financial management reform legislation.

Agency Comments

In commenting on a draft of this report, IRS agreed with our closing of 27 audit recommendations and reaffirmed its commitment to improving financial management. Along with its comments, IRS provided an update to the status of each of the 62 recommendations that we consider to be open as of February 2002 when we completed our fiscal year 2001 audit. IRS indicated that of these 62 recommendations, it considers 22 to be closed as of July 17, 2002, including 2 of the highest priority recommendations, based upon corrective actions IRS has taken. We will review the effectiveness of these corrective actions and the status of IRS's progress in addressing all open recommendations as part of our fiscal year 2002 financial audit.

Objectives, Scope, and Methodology

We evaluated the effectiveness of IRS's corrective actions implemented in response to open recommendations during fiscal year 2001 as part of our fiscal years 2001 and 2000 financial audits.⁸ Further details on our scope and methodology with respect to this work are included in our February 2002 report on the results of our fiscal years 2001 and 2000 financial statement audits. We also reviewed IRS's September 30, 2001, corrective action plan for each of the material weaknesses identified in its FMFIA assurance report, IRS's March 31, 2002, remediation plan, and IRS's response to our fiscal year 2001 management report for IRS's planned corrective actions. We noted IRS's conclusion on the status of each outstanding recommendation based on its plans and actions taken. We also compared IRS's plans to our fiscal year 2001 audit findings and noted any differences between IRS's and our conclusions regarding the status of the recommendations. We performed our work from March 2001 through June 2002 in accordance with U.S. generally accepted government auditing standards. We requested comments on a draft of this report from the Commissioner of Internal Revenue or his designee. Written comments were received from the Deputy Commissioner and are reprinted in appendix II.

⁸GAO-02-414.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations; Senate Committee on Finance; Senate Committee on Governmental Affairs; Senate Committee on the Budget; Subcommittee on Treasury, General Government, and Civil Service, Senate Committee on Appropriations; Subcommittee on Taxation and IRS Oversight, Senate Committee on Finance; Subcommittee on Oversight of Government Management, Restructuring, and the District of Columbia, Senate Committee on Governmental Affairs; House Committee on Appropriations; House Committee on Ways and Means; House Committee on Government Reform; House Committee on the Budget; Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, House Committee on Government Reform; and Subcommittee on Oversight, House Committee on Ways and Means. In addition, we are sending copies of this report to the Chairman and Vice-Chairman of the Joint Committee on Taxation, the Secretary of the Treasury, the Director of the Office of Management and Budget, the Chairman of the IRS Oversight Board, and other interested parties. Copies will be made available to others upon request. In addition, the report will be made available at no charge on GAO's web site at <http://www.gao.gov>.

If you have any questions concerning this report, please contact me at (202) 512-3406.

The GAO contacts and staff acknowledgments are listed in appendix III.

Sincerely yours,



Steven J. Sebastian
Director
Financial Management and Assurance

Status of GAO Recommendations From Prior IRS Financial Audits and Related Management Reports

Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
1	93-2	Determine what information related to automated data processing (ADP) resources, such as equipment condition and remaining useful life, would be most useful to IRS managers for financial management purposes and develop a means for accounting for these data. (Long-term)	<i>Financial Management: IRS Lacks Accountability Over Its ADP Resources</i> (GAO/AIMD-93-24, Aug. 5, 1993)	Open. IRS intends to implement a system that will integrate its P&E inventory system with its financial system. This Integrated Financial System (IFS) is expected to include information related to equipment resources and to incorporate a means of accounting for such data. Scheduled completion is March 1, 2005.	Open. We will follow up to determine what information IRS has considered as part of establishing IFS's system requirements.
2	94-2	Monitor implementation of actions to reduce the errors in calculating and reporting manual interest on taxpayer accounts, and test the effectiveness of these actions. (Short-term)	<i>Financial Management: Important IRS Revenue Information Is Unavailable or Unreliable</i> (GAO/AIMD-94-22, Dec. 21, 1993)	Open. IRS is implementing new procedures and software. IRS expects to complete testing, implementation, and staff training by January 1, 2003.	Open. We will review the effectiveness of IRS's new monitoring actions when implemented.
3	99-1	Manually review and eliminate duplicate or other assessments that have already been paid off to assure all accounts related to a single assessment are appropriately credited for payments received. (Short-term)	<i>Internal Revenue Service: Immediate and Long-Term Actions Needed to Improve Financial Management</i> (GAO/AIMD-99-16, Oct. 30, 1998)	Open. IRS is developing a system to automate the trust fund recovery penalty (TFRP) program. IRS expects that this will eliminate the opportunity for errors that plague the current manual process. Scheduled for implementation October 1, 2003.	Open. IRS's manual cross-reference information linking assessments is labor intensive and often ineffective. In fiscal year 2001 we found that 20 out of 67 TFRP cases had payments that were not posted to reflect each responsible party's reduction in tax liability. Fourteen of the 20 (70 percent) had all the necessary cross-references, and for 12 of these cases the unposted payments were made after the cross-reference had been added.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
4	99-3	Ensure that IRS's modernization blueprint includes developing a subsidiary ledger to accurately and promptly identify, classify, track, and report all IRS unpaid assessments by amount and taxpayer. This subsidiary ledger must also have the capability to distinguish unpaid assessments by category in order to identify those assessments that represent taxes receivable versus compliance assessments and write-offs. In cases involving trust fund recovery penalties, the subsidiary ledger should ensure that (1) the trust fund recovery penalty assessment is appropriately tracked for all taxpayers liable but counted only once for reporting purposes and (2) all payments made are properly credited to the accounts of all individuals assessed for the liability. (Short-term)	<i>Internal Revenue Service: Immediate and Long-Term Actions Needed to Improve Financial Management</i> (GAO/AIMD-99-16, Oct. 30, 1998)	Open. IRS's Custodial Accounting Project (CAP) includes the development of a taxpayer account subledger (TASL) which is expected to provide the ability to identify duplicate trust fund recovery assessments, taxes receivable, compliance assessments, and write-offs for financial reporting purposes. Scheduled for completion April 1, 2003.	Open. During our fiscal year 2002 audit, we will review certain requirements of IRS's CAP to verify that the requirements address the issues raised in the recommendation.
5	99-4	Examine and consider options to increase deterrent controls at service centers. Some options IRS should examine and consider include installing surveillance cameras to monitor staff when they are opening, extracting, and sorting the mail and when they are processing receipts; restricting personal items that can be brought into the receipt processing areas, such as handbags, briefcases, and bulky outerwear; and providing lockers and requiring their use for storing personal belongings outside of the receipt processing areas. (Short-term)	<i>Internal Revenue Service: Immediate and Long-Term Actions Needed to Improve Financial Management</i> (GAO/AIMD-99-16, Oct. 30, 1998)	Closed. IRS concluded that surveillance cameras used to monitor staff when processing receipts were not effective deterrent controls against theft. In lieu of surveillance cameras, alternate physical security enhancements were implemented. These items included the (1) adoption of an agreement with the National Treasury Employees Union (NTEU) that prohibits employees from bringing personal items, such as lunch bags, purses, and briefcases into receipt processing areas and (2) installation of lockers to store such items. Completed March 2000.	Closed. During our fiscal year 2001 audit, we verified that IRS examined and considered options to increase deterrent controls at service centers, and that IRS installed lockers at the service centers we visited. However, we noted that issues continue to exist in the implementation of the policy prohibiting employees from bringing personal belongings into receipt processing areas. We will continue to evaluate the effectiveness of IRS's efforts during our fiscal year 2002 financial audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
6	99-7	Ensure that IRS's modernization blueprint includes the ability to compare W-2 and other third-party information to tax returns as they are processed to further prevent improper refunds from being issued. (Short-term)	<i>Internal Revenue Service: Immediate and Long-Term Actions Needed to Improve Financial Management</i> (GAO/AIMD-99-16, Oct. 30, 1998)	Open. The Modernization Blueprint Volume III provides for the comparison against data available prior to refund issuance. Scheduled completion is October 1, 2003.	Closed. The proposed blueprint includes, at a high level, the ability to compare electronically submitted returns that substantially addresses our recommendation. We will continue to monitor IRS's efforts to ensure that this high-level requirement is ultimately assigned to a specific modernization project.
7	99-8	Revise the Form 720 tax return to reflect a separate column adjacent to the column for entering the tax assessment, by abstract number, for the taxpayer to report on pages 1 and 2 of the tax return claims and adjustments, by abstract number, based on the information the taxpayer reports on Schedule C. (Short-term)	<i>Excise Taxes: Internal Control Weaknesses Affect Accuracy of Distributions to the Trust Funds</i> (GAO/AIMD-99-17, Nov. 9, 1998)	Closed. IRS revised the Form 720 and the Schedule C. Completed October 2001.	Closed. We confirmed that the Form 720 and Schedule C were revised effective October 2001. The revisions should (1) result in a better matching of certain adjustments to the related tax periods and, (2) through the use of credit reference numbers tied to the specific abstracts, alleviate the concerns we had with related credits and adjustments not being placed by the abstract on the front of the form.
8	99-9	Develop, document, and implement review procedures over the adjustment and summarization of assessment data used in the certifications. Specifically, IRS should require that detailed supervisory review be performed and documented to ensure that adjustments are reasonable and adequately supported, calculations are appropriately performed, and the certification letter agrees with the supporting schedules. (Short-term)	<i>Excise Taxes: Internal Control Weaknesses Affect Accuracy of Distributions to the Trust Funds</i> (GAO/AIMD-99-17, Nov. 9, 1998)	Closed. Three separate check sheets have been developed to ensure the quality of each excise tax certification. In addition, IRS reported that it prepared written procedures for preparing the certifications and changed the review process to now require a second-level review to ensure accuracy. Completed December 21, 1998.	Closed. In fiscal year 2000, IRS prepared and implemented written procedures for their excise tax certification process. However, we continued to find issues with the implementation of these procedures, such as inadequate reviews that resulted in undetected errors in the data used for certification. We will continue to evaluate the effectiveness of IRS's efforts in our fiscal year 2002 financial audit.

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				Per IRS	Per GAO
9	99-10	Establish procedures to review the applications and associated documents for all applicants given job offers to ensure that fingerprint checks are initiated on those individuals. Implement procedures to provide supervisory feedback on these reviews as necessary to ensure personnel staff are aware of and follow IRS's policy requiring fingerprint checks. (Short-term)	<i>Internal Revenue Service: Physical Security Over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998)	Closed. IRS established procedures in July 1999 that established database reports and procedures to enable Personnel Offices to ensure that fingerprint checks are initiated and supervisory feedback is provided so that IRS staff comply with fingerprint check requirements. Completed July 9, 1999.	Closed. We confirmed that IRS established procedures requiring local hiring offices to review hiring database reports to monitor compliance with the fingerprint policy and to ensure the accuracy of the hiring database. The procedures require managers to take corrective actions when the reports showed instances of noncompliance. However, certain implementation issues exist which continued to result in instances where employees entered on duty who were not fingerprinted until a few days or months later and a few instances where IRS had no record of completed fingerprint checks. See related recommendations 99-12 and 02-18.
10	99-11	Continue with the agency's plans to develop and implement a policy to fingerprint filing season applicants at the earliest possible time in the job application process. (Short-term)	<i>Internal Revenue Service: Physical Security Over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998)	Closed. IRS issued policies in 1999 that required fingerprinting all filing season applicants at the earliest possible time in the job application process. Completed June 26, 1999.	Closed. We confirmed that IRS issued policies requiring fingerprinting all filing season applicants at the earliest possible time in the job application process. However, we continued to find issues with the implementation of these policies, such as instances where new hires were not fingerprinted until several days or months after their enter on duty dates. These new hires were assigned to positions, such as data transcription and mail clerks, which gave them access to taxpayer data and receipts. We will continue to evaluate the effectiveness of IRS's efforts to implement these policies during the fiscal year 2002 financial audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
11	99-12	Until the problems with delays in fingerprint checks are resolved, develop and implement a policy prohibiting new employees from being assigned to process receipts until the results of fingerprint checks are received and reviewed by management. (Short-term)	<i>Internal Revenue Service: Physical Security Over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998)	Closed. In April 2000 IRS issued a policy memo requiring fingerprint checks be received and results evaluated before an employee in any IRS office can begin working, and it issued a further clarifying memo in August 2000. Completed August 2000.	Open. Although IRS issued the April 2000 policy, it did not consistently implement it. According to IRS and Office of Personnel Management hiring data, IRS continued to hire employees who had access to taxpayer receipts and data in fiscal year 2001 before it received the results of their fingerprint checks. We will continue to evaluate the effectiveness of IRS's efforts in our fiscal year 2002 financial audit.
12	99-16	Provide secure containers for service center employees to store "discovered remittances" prior to inventory and submission to the Receipt and Control Branch. Immediately upon discovery, the receipts should be recorded into a control log, the receipts secured in a locked container, and the discovered receipts reconciled to the control log prior to submission for processing. (Short-term)	<i>Internal Revenue Service: Physical Security Over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998)	Closed. Each service center campus currently has locked containers to store the discovered remittances. In addition, IRS reported that it issued instructions to the service centers on February 17, 1999, to emphasize the handling and recording of these remittances to ensure reconciliation. Completed February 17, 1999.	Open. During our fiscal year 2001 site visits, we continued to find discovered remittances that were not stored in locked containers and that were not immediately logged in when they were discovered. Additionally, combination locks to containers were not changed in accordance with IRS's policy. We will continue to evaluate IRS's efforts in our fiscal year 2002 financial audit.
13	99-17	Ensure that all returned refund checks are stamped "nonnegotiable" as soon as they are extracted. (Short-term)	<i>Internal Revenue Service: Physical Security Over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998)	Closed. IRS updated Internal Revenue Manual (IRM) 3.10.72.6(1) to reflect the policy of stamping all returned refund checks non-negotiable as soon as they are extracted. In May 2000, IRS added instructions to the IRM that required extraction personnel to place returned refund checks in a designated bucket/bin for manager review to ensure compliance. Completed May 2000.	Open. During our fiscal year 2001 site visits, we found that not all sites were locking or immediately stamping the returned refund checks. Consequently, several employees handled the checks before they were restrictively endorsed, thus increasing their risk of theft. We will continue to evaluate IRS's efforts in our fiscal year 2002 financial audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
14	99-18	Require district office employees to store walk-in payments in secure containers in accordance with IRM 1(16) 41, section 500. District office management should ensure that this policy is followed and should limit the number of employees with access to the keys or combinations to these containers. (Short-term)	<i>Internal Revenue Service: Physical Security Over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998)	Closed. IRS has communicated the requirements to the field offices through its new Customer Service Operating Guidelines for fiscal year 2000 and that access to the keys to the containers are restricted. Completed December 6, 1999.	Closed. We confirmed that IRS has communicated the requirements to the field offices through its new Customer Service Operating Guidelines and that access to the keys to the containers is restricted. However, we found issues with the implementation of these requirements. At one of the sites visited during fiscal year 2001, we found that walk-in payments were not stored in a locked container for the first 11 months of the fiscal year. Additionally, we found that all seven employees at another site we visited had access to the keys to the cabinet used to store receipts during nonoperating hours. We will continue to evaluate IRS's efforts in our fiscal year 2002 financial audit.
15	99-19	Ensure that walk-in payment receipts are recorded in a control log prior to depositing the receipts in the locked container and ensure that the control log information is reconciled to receipts prior to submission of the receipts to another unit for payment processing. To ensure proper segregation of duties, an employee not responsible for logging receipts in the control log should perform the reconciliation. (Short-term)	<i>Internal Revenue Service: Physical Security Over Taxpayer Receipts and Data Needs Improvement</i> (GAO/AIMD-99-15, Nov. 30, 1998)	Closed. IRS issued guidance to the field in August 1999 and updated the IRM in January 2000 to include instructions for a control log and reconciliation of receipts. Completed January 2000.	Open. We continued to find instances in which walk-in payments were not logged as soon as they were received. At one field site visited, taxpayer payments were not immediately recorded onto a control log, through the first 10 months of fiscal year 2001. We will continue to evaluate IRS's efforts in our fiscal year 2002 financial audit.

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				Per IRS	Per GAO
16	99-20	Analyze and determine the factors causing delays in processing and posting trust fund recovery penalty assessments. Once these factors have been determined, IRS should develop procedures to reduce the impact of these factors and to ensure timely posting to all applicable accounts and proper offsetting of refunds against unpaid assessments before issuance. (Short-term)	<i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> (GAO/AIMD-99-193, Aug. 4, 1999)	Open. IRS convened a task group to design an automated TFRP system that will have the capability to systemically post TFRP assessments and properly cross-reference payments received and thus eliminate the opportunity for errors that plague the current manual process. Implementation is scheduled for October 1, 2003.	Open. We will continue to monitor the timeliness and completeness of IRS's processing of these transactions during our fiscal year 2002 financial audit.
17	99-21	Identify and institute procedures to monitor compliance of installment agreements. Such monitoring should ensure that the installment agreements provide for full payment of the taxes owed. For example, management could randomly select installment agreements from all of its units to review for compliance with the Internal Revenue Code. (Short-term)	<i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> (GAO/AIMD-99-193, Aug. 4, 1999)	Closed. IRS updated the IRM and issued a new one in October 1999 to state that installment agreements must stipulate full payment for liabilities. Service centers are required to monitor compliance. Completed September 23, 1999.	Closed. We confirmed that IRS updated the IRM to state that installment agreements must stipulate full payment for liabilities. During fiscal year 2001, we noted no instances of noncompliance with the Internal Revenue Code related to installment agreements. We will continue to evaluate IRS's compliance during our fiscal year 2002 financial audit of IRS.
18	99-22	Expand IRS's current review of service center deterrent controls to include similar analyses of controls at IRS field offices in areas such as courier security, safeguarding of receipts in locked containers, requirements for fingerprinting employees, and requirements for promptly over-stamping checks made out to the "IRS" with "Internal Revenue Service" or "United States Treasury." Based on the results, IRS should make appropriate changes to strengthen its physical security controls. (Short-term)	<i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> (GAO/AIMD-99-193, Aug. 4, 1999)	Open. IRS will be initiating efforts to expand deterrent controls at campuses to field offices and post of duty offices to ensure uniformity and consistency in its implementation of deterrent controls. Implementation is scheduled for January 1, 2003.	Open. IRS responded that it plans to address this recommendation by January 2003. However, to date, it has primarily focused its review of field offices to the Taxpayer Assistance Centers (TAC). We are concerned with the limited scope of this review since past audits have found control weaknesses over the safeguarding and accounting for taxpayer receipts and data not only in TAC units but other field office units, such as Case Processing. We will continue to monitor IRS's efforts during our fiscal year 2002 financial audit.

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				Per IRS	Per GAO
19	99-24	Establish procedures to ensure the prompt recording of tax returns. IRS should implement controls to ensure that excise tax returns are recorded timely and included in the quarterly excise tax trust fund certifications. (Short-term)	<i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> (GAO/AIMD-99-193, Aug. 4, 1999)	Closed. IRS implemented several IRM procedures throughout 1999 to address this issue. These include requiring service centers to express mail their Form 720s to the Cincinnati service center daily and ensuring that Form 720s over \$1 million are batched separately and expedited. Completed August 1999.	Closed. During fiscal year 1999, IRS implemented additional procedures at the Cincinnati Service Center Campus to expedite the processing of Form 720 Excise Tax returns over \$1 million. During our reviews in fiscal years 2000 and 2001, we noticed a significant reduction in large tax returns that were not included in the proper quarterly excise tax trust fund certifications for the Airport and Airway Trust Fund and the Highway Trust Fund.
20	99-25	Ensure that additional staff are employed or existing staff appropriately cross-trained to be able to perform the master file extractions and other ad hoc procedures needed for IRS to continually develop reliable balances for financial reporting purposes. (Short-term)	<i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> (GAO/AIMD-99-193, Aug. 4, 1999)	Open. IRS hired two additional contract staff to work on the CAP. However, IRS acknowledged that a large number of additional staff are still needed. Over 30 staff are scheduled to be hired by October 2003. Full transition to the CAP will require an additional year. Scheduled completion is October 1, 2004.	Open. IRS's staffing changes are focused on supporting the implementation of CAP, rather than the current staffing needs of the masterfile and other existing financial systems. We will follow-up during our fiscal year 2002 audit to assess IRS's effectiveness in preparing timely, reliable financial statements based on existing financial systems pending implementation of CAP.
21	99-29	Develop the data to support meaningful cost information categories and cost-based performance measures. (Long-term)	<i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999)	Open. IRS will implement cost accounting as part of Release 1 of IFS. Scheduled for completion October 1, 2003.	Open. We will review IFS plans to verify that it incorporates a cost accounting capability sufficient to address the issues that gave rise to this recommendation, and follow-up during future audits to assess the effectiveness of the implementation of IFS's cost accounting features.

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22	99-30	Develop and implement procedures and controls to ensure that detailed P&E records are accurately maintained. These procedures and controls would include ensuring that physical inventories at field locations are effectively performed, including prompt resolution of discrepancies found in the inventories and appropriate adjustment of detailed records. (Short-term)	<i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999)	Open. IRS has completed some remedies. Specifically, IRS established standard operating procedures to account for P&E, deployed Single Point Inventory Function (SPIF) teams at all sites except Metro DC to establish accountability for its ADP assets, and implemented procedures to manually verify year Request Tracking System (RTS) data into the Information Technology Asset Management System (ITAMS). IRS also reported that it replaced the current inventory system with a modernized system. Additional planned remedies remain open, such as completing site-specific handbooks. Scheduled for implementation October 1, 2002.	Open. During fiscal year 2001, we confirmed that IRS took steps to address weaknesses over its P&E and we noted improvement in the reliability of IRS's P&E inventory records. However, serious weaknesses continued to affect IRS's ability to maintain accountability over its P&E. For example, the new inventory system did not capture information essential to ensure that software and software licenses were properly controlled and used only in accordance with license agreements and IRS's procedures for recording P&E acquisitions, transfers, and disposals did not ensure that transactions were promptly and accurately recorded. Of 210 P&E items we selected from inventory records at 21 sites, 25 could not be located at the time of our review. Also, the interface between ITAMS and RTS was not always effective in ensuring that P&E acquisitions were promptly recorded. We will evaluate IRS's continuing efforts to achieve accountability over its P&E during our fiscal year 2002 financial audit.

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23	99-34	Revise the current capitalization policy to ensure that material P&E acquisitions are not expensed. (Short-term)	<i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999)	Open. IRS has revised its capitalization policy to include major systems, but needed to review its capitalization threshold for major systems to reduce the risk of expensing material P&E acquisitions. Scheduled to be completed on November 1, 2002.	Open. We confirmed that IRS established a capitalization threshold for internal use software projects. This capitalization threshold, along with policies and procedures implemented in fiscal year 2001 for identifying and recording software development costs, allowed IRS to capitalize and record the cost of major internal use software projects in fiscal year 2001. However, this action did not fully address our recommendation. Specifically, through fiscal year 2001, IRS had not revised its capitalization policy for ADP and non-ADP P&E. For fiscal year 2001, IRS's methodology for accumulating and capitalizing P&E hardware costs was not consistent with its capitalization policy. For fiscal year 2001, IRS capitalized the cost of P&E without regard to the cost of individual assets, but IRS's stated policy is to capitalize assets costing \$50,000 or more. A final revision to this policy is still needed, supported by detailed analysis identifying the capitalization threshold. We will continue to evaluate IRS's efforts in our fiscal year 2002 financial audit.

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24	99-35	Review all lease agreements to determine whether they meet the criteria for capital leases and capitalize and properly record any leases that meet the criteria. (Short-term)	<i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999)	Closed. Contracting officers are required to notify the office of the CFO of all lease acquisitions with total payments in excess of \$50,000. IRS also reported that in November 2000 the CFO's office completed reviewing documentation for all leased assets acquired in fiscal year 2000 to determine the status of prior year balances and whether additional capital lease liabilities should be recorded, and to make other accounting adjustments as necessary. Completed November 27, 2000.	Closed. For fiscal years 2000 and 2001, IRS hired a contractor to review its lease agreements after fiscal year-end to identify those that met the criteria for capital leases. This process allowed IRS to report a reasonable amount for its fiscal year 2001 capital lease liability. IRS still does not have a systematic process to identify and record assets and the corresponding capital lease liabilities as they occur. We will continue to monitor IRS's efforts to identify and record capital leases as they occur through recommendation No. 99-36.
25	99-36	Make enhancements to IRS financial systems to include recording P&E and capital leases as assets when purchased and to generate detailed records for P&E that reconcile to the financial records. (Long-term)	<i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999)	Open. IRS's new integrated financial system, currently targeted for March 2005, will allow recording P&E and capital leases as assets when purchased and will generate detailed records for P&E that will reconcile to the financial records. Scheduled completion March 1, 2005.	Open. We will continue to evaluate IRS's progress in addressing these issues in its new system.
26	99-37	Ensure that additional knowledgeable staff are employed or that existing staff are appropriately cross-trained to be able to develop IRS's financial statements and perform its accounting and financial functions or are able to perform the necessary supervision needed to obtain reliable and supportable financial data on time. (Short-term)	<i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999)	Closed. Hiring and training has been completed for additional staff to work on financial statement preparation and accounting/financial functions. As staff turnover occurs, management will work quickly to take action to fill critical positions and provide necessary training. Completed October 25, 2000.	Closed. We confirmed individuals have been hired and put in place to develop IRS's financial statements and perform accounting and financial functions. We will continue to evaluate the effectiveness of the new team during our fiscal year 2002 financial audit.

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27	99-38	Establish procedures for the financial statements to undergo review at the appropriate levels within the Chief Financial Officer's office, with documented evidence of the reviews. (Short-term)	<i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999)	Closed. IRS has developed procedures that require two levels of review of the financial statements. Completed August 31, 1999.	Open. As in prior years, we identified errors and omissions in the draft fiscal year 2001 financial statements indicating that this control had not been effectively implemented. We will continue to evaluate the effectiveness of these actions during our fiscal year 2002 financial audit.
28	01-01	Better monitor IRS's procedures requiring that a freeze code be entered on all accounts of a taxpayer whom IRS has determined is potentially liable for unpaid payroll taxes. This should be done on all such accounts to prevent the inadvertent release of refunds to the taxpayer until IRS determines the validity of the tax liability. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. IRS issued a memorandum to the field emphasizing the timely input of the freeze code and revised the IRM procedures to allow 30 days for the assessment of the trust fund penalty after input of the freeze code. Completed September 28, 2001.	Open. We will continue to monitor IRS's use of freeze codes during our fiscal year 2002 financial audit of IRS to assure they are used to prevent refunds from being released to taxpayers who are potentially liable or unpaid payroll taxes.
29	01-02	Revise policies and procedures governing the processing of abatement transactions to establish (1) appropriate time frames for processing abatements, (2) a methodology for monitoring the timeliness of abatement processing, and (3) procedures to identify the causes for delays and formulate corrective actions; and, examine abatement transactions arising from IRS errors to determine the causes for the errors and, based on this examination, formulate and implement appropriate procedures to reduce the level of errors made when entering data into taxpayer accounts. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. IRS has begun using a new Customer Service Management Information Report, which includes categories of cases that often result in tax abatements, and has developed other automated approaches to further study the causes for delays in processing abatements. IRS reported that it has existing procedures for processing claims for abatements that are specific to the type and amount claimed.	Open. In fiscal year 2001, we continued to find delays in the processing of abatements. We will continue to monitor the effectiveness of IRS's actions during our fiscal year 2002 financial audit.

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30	01-03	Implement procedures to monitor the age of all pending offers and to require supervisors to follow up with staff to determine within 6 months whether to accept or reject the offer. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. IRS plans to centralize the processing of smaller-dollar, less complex offers. As managers currently conduct regular workload reviews, IRS believes this centralization will better address this problem. Scheduled for completion July 1, 2002.	Open. In fiscal year 2001 we continued to find offers-in-compromise that were not processed timely. We will continue test the timeliness of the processing of offers-in-compromise during our fiscal year 2002 financial audit.
31	01-04	As an alternative to prematurely suspending active collection efforts, and using the best available information, develop reliable cost-benefit data relating to collection efforts for cases with some collection potential. These cost-benefit data would include the full cost associated with the increased collection activity (i.e., salaries, benefits, and administrative support) as well as the expected additional tax collections generated. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. IRS disagreed with this recommendation. IRS reported that it planned to address this issue in its new strategic planning process, which is designed to identify and allocate finite resources to processes that would best improve the effectiveness of the agency and provide better service to the tax paying public. IRS also reported that because it is not possible to provide cost-benefit data in its current financial system, this issue is to be addressed through the implementation of a Joint Financial Management Improvement Program (JFMIP) compliant standard general ledger, currently targeted for implementation in late 2004.	Open. We agree that addressing these issues in IRS's strategic planning process is beneficial. However, we believe that in order for IRS's strategic planning process to be fully effective, it must be based on complete, timely, and reliable underlying data. We continue to believe that reliable internal cost-benefit data and analysis related to these programs is necessary for IRS to make informed resource allocation decisions.
32	01-05	Incorporate into its systems modernization blueprint and strategic planning process the capability to routinely and reliably measure the cost-benefit of its collection activities and make informed resource allocation decisions. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. IRS 's plans to implement cost accounting as part of IFS. Scheduled completion October 1, 2003.	Open. We will review the IFS plans to verify that it includes requirements that meet the objectives of the recommendation. IRS's response did not address the recommendation that this information be incorporated into its strategic planning process.

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33	01-06	Implement procedures to closely monitor the release of tax liens to ensure that they are released within 30 days of the date the related tax liability is fully satisfied. As part of these procedures, IRS should carefully analyze the causes of the delays in releasing tax liens identified by our work and prior work by IRS's former internal audit function and ensure that such procedures effectively address these issues. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Open. IRS's Satisfied Module Tapes are now downloaded twice to the Automated Lien System. Also, allowing certain Offer-in Compromise Unit employees to request lien releases would be an effective change. However, this requires negotiations with the NETU, which are pending. In the interim, a pilot test has been designed. Scheduled completion September 1, 2002.	Open. Actions taken to date have not been fully effective. During fiscal year 2001 we found 5 instances out of 59 cases tested in which IRS did not release the applicable federal tax lien within the 30-day statutory period. The time between the satisfaction of the liability and release of the lien ranged from about 146 days to over 300 days.
34	01-08	Determine why the program that generates the Questionable Refund Report (QRR) was not functioning as intended during fiscal year 1999 and implement appropriate corrective actions. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Closed. IRS has refined its criteria for identifying potential duplicate refunds under duplicate refund (DUPREF) transcripts and had worked with service centers to implement a new diagnostic tool for verifying payments.	Closed. Although IRS did not directly address the problems with the QRR, we found that IRS staff are using DUPREF, which performs a similar function.
35	01-09	IRS should determine why service centers have not been more effective in stopping refunds associated with questionable Earned Income Tax Credits (EITC) and make changes to current procedures, as appropriate. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Closed. IRS implemented several measures to help prevent improper EITC refunds, such as automatically freezing refunds when there is an open examination, using expanded data such as child support orders to identify questionable claims, and reducing examination cycle time. Completed January 16, 2001.	Closed. IRS implemented an automatic freeze code on refunds associated with questionable EITC and uses expanded data to identify questionable refunds.
36	01-10	IRS should review procedures for enforcing taxpayer compliance with the Taxpayer Relief Act of 1997 and implement actions to prevent taxpayers who were denied an EITC for tax year 1997 or any subsequent year from being granted an EITC in successive years until they provide the requisite supporting documentation. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Closed. IRS reviewed its procedures to ensure that they are in accordance with the Taxpayer Relief Act of 1997 and has implemented an indicator to help prevent taxpayers from receiving an EITC if they have previously been found ineligible. Completed January 16, 2001.	Closed. IRS implemented an automatic freeze code on EITC-related refunds when there is an ongoing EITC examination case. We also confirmed that IRS implemented an indicator to help prevent taxpayers from receiving an EITC if they had previously been found ineligible.

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37	01-11	IRS should track the total number of and dollars in EITCs subjected each year to Electronic Fraud Detection System (EFDS) screening and related efforts to enable IRS to estimate the full magnitude of suspicious EITCs and determine the level of resources to be devoted to EFDS screening and investigative follow-up appropriate for the risks and potential losses involved. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. IRS now collects data on the number and dollar amount of EITC screened through EFDS, although it does not believe these data should be used to identify the universe of suspicious EITC claims. Closed January 16, 2001.	Closed. We confirmed that IRS now retains the data on the number and dollar amount of claims screened through EFDS.
38	01-12	For (1) IRS's Automated Underreporter and Combined Annual Wage Reporting programs, (2) screening and examination of EITC claims, and (3) identifying and collecting previously disbursed improper refunds, use the best available information to develop reliable cost-benefit data to estimate the tax revenue collected by, and the amount of improper refunds returned to, IRS for each dollar spent pursuing these outstanding amounts. These data would include (1) an estimate of the full cost incurred by IRS in performing each of these efforts, including the salaries and benefits of all staff involved, as well as any related nonpersonnel costs, such as supplies and utilities, and (2) the actual amount (a) collected on tax amounts assessed and (b) recovered on improper refunds disbursed. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. IRS disagreed with this recommendation. IRS believes that this issue is best dealt with through its strategic planning process, and requested that in lieu of this recommendation, GAO review that process as part of IRS's authorization. Completed January 29, 2001.	Open. We agree that addressing these issues in IRS's strategic planning process is beneficial. However, we believe that in order for IRS's strategic planning process to be fully effective, it must be based on complete, timely, and reliable underlying data. We continue to believe that reliable internal cost-benefit data and analysis related to these programs are necessary for IRS to make informed resource allocation decisions.

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39	01-13	Incorporate in IRS's systems modernization blueprint and strategic planning process capabilities for routinely and reliably measuring the cost-benefit of each of the efforts listed in recommendation 53 and make informed resource allocation decisions. (Long-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Open. IRS reported that it plans to implement a cost accounting function as part of its implementation of the IFS. Scheduled completion October 1, 2003.	Open. During our fiscal year 2002 financial audit, we will review IRS's IFS plans to verify that it contains requirements to address the objectives of the recommendation.
40	01-14	Work with Treasury's Financial Management Service (FMS) to revise the current lockbox contracts to emphasize security requirements and to specifically require that (1) fingerprint checks be completed before employees begin working, (2) temporary employees be subjected to background checks that are consistent with those required for IRS employees, and (3) at a minimum, lockbox bank courier services meet the service center requirements contained in IRS's November 16, 1999, policy. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Closed. IRS developed lockbox bank security standards included in the Calendar Year 2002 Contract. The standards include physical security, courier, and background investigation standards consistent with IRS campus requirements. IRS worked with FMS and included the standards in the Invitations for Expressions of Interest (IEI) for the new lockbox contract. IRS reported corrective action was completed on January 29, 2001 with the issuance of the IEI.	Open. Based on our review of the 2002 Lockbox Processing Guidelines (LPG) (4/02 version), contract requirements were revised to address points 1 and 2 of the recommendation. All employees and contractors (i.e., couriers and janitors) are now required to complete Federal Bureau of Investigation fingerprint checks before being allowed access to taxpayer data. However, the requirements for couriers need to be further revised to be more consistent with campus courier requirements. For example, the LPG does not prohibit unauthorized passengers from boarding courier vehicles and does not require lockbox employees or guards to perform inspections of courier vehicles. We will monitor IRS's progress in this area during our fiscal year 2002 financial audit.
41	01-15	Ensure that all IRS units receiving collections have consistent policies and procedures to safeguard and account for cash receipts. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Open. The Subcommittee on Security working group is identifying changes in policies for the field offices. The Director of Security will take the lead in ensuring implementation of consistent policies and procedures. Scheduled completion October 1, 2002.	Open. We will continue to monitor IRS's progress in developing and implementing consistent policies to safeguard and account for cash at a Service-wide level during our fiscal year 2002 financial audit.

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42	01-16	Perform and document periodic observations and reviews to monitor and enforce compliance with policies addressing the safeguarding of cash receipts. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. IRS is conducting reviews of service center campuses and determining the appropriate types and frequencies of reviews for field offices. Scheduled completion July 1, 2002.	Closed. We confirmed that IRS is conducting periodic on-site reviews at service center campuses.
43	01-17	Develop a subsidiary ledger for leasehold improvements and implement procedures to record leasehold improvement costs as they occur. (Long-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. The new IFS will incorporate a subsidiary ledger for leasehold improvements. Scheduled completion March 1, 2005.	Open. We will continue to evaluate the effectiveness of IRS's efforts in this area.
44	01-18	Implement procedures and controls to ensure that expenditures for P&E are charged to the correct accounting codes to provide reliable records for expenditures as a basis of extracting the costs for major systems and leasehold improvements. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. The new Integrated Financial System will incorporate a subsidiary ledger for leasehold improvements. Scheduled completion March 1, 2005.	Open. IRS's corrective action plan only partially addresses our recommendation. The planned remedy does not address the portion of the recommendation pertaining to procedures and controls over accounting codes used to record expenditures for major systems. IRS's extraction of software project costs and leasehold improvement costs from expenses based on accounting codes allowed IRS to report a reasonable P&E balance for fiscal year 2001. However, during our testing of transactions we found that IRS did not always charge the appropriate accounting code for internal use software. We will continue to evaluate the effectiveness of IRS's efforts during our fiscal year 2002 financial audit.

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45	01-20	Develop procedures and systems to capture and capitalize the cost of internally developed software in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 10, <i>Accounting for Internal Use Software</i> . (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. In fiscal year 2001, IRS developed and issued a policy for capturing and capitalizing internal use software. IRS will validate and institutionalize the process for capturing and capitalizing the cost of internally developed software. Scheduled completion June 30, 2002.	Closed. We confirmed that IRS developed policies and procedures to implement SFFAS No.10 that resulted in the direct and indirect cost of internal use software being capitalized.
46	01-21	Consolidate and update the P&E policies and procedures currently documented in various handbooks and policy memorandums into a comprehensive document that personnel responsible for maintaining inventory records can use as a reference. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. IRS will develop and implement guidelines to establish clear accountability in the receipt, distribution, excess, and/or disposal of ADP hardware, software, and telecommunications throughout IRS. Scheduled completion June 1, 2002.	Open. We will continue to monitor IRS's progress during our fiscal year 2002 financial audit.
47	01-23	Develop and implement procedures so that personnel responsible for maintaining P&E inventory records receive prompt notification when P&E is received, moved, or disposed of. Procedures should help ensure that those responsible for maintaining inventory records promptly receive documentation supporting P&E transactions, such as receiving reports, invoices, and disposal documents. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. SPIF procedures were established to ensure prompt notification to SPIF units when P&E is ordered, received, moved, or disposed of. Completed July 28, 2000.	Closed. We confirmed that IRS established SPIF procedures to ensure prompt notification to SPIF units when P&E is ordered, received, moved, or disposed of.
48	01-24	Revise guidance on recording P&E to clearly state that P&E is to be recorded when title passes to IRS or when delivered, based on the terms of the contract regarding shipping and delivery. This is to clarify that P&E and related accounts payable should be promptly recorded when P&E is received, in accordance with SFFAS No. 6, rather than when it is placed in service. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. SPIF procedures distributed in July 2000 require that P&E be recorded within 10 days of receipt, not when the P&E is placed into service. Completed July 28, 2000.	Closed. We verified that SPIF procedures require that P&E be recorded within 10 working days of receipt.

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49	01-25	Provide training on P&E policy and procedures to personnel responsible for maintaining inventory records to help ensure that P&E transactions are promptly and accurately recorded. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. All personnel responsible for the maintenance of inventory accuracy completed training on policy, procedures, and system usage. Completed August 1, 2001.	Closed. During our fiscal year 2001 audit, we confirmed that IRS personnel responsible for P&E inventory received training.
50	01-26	Review, and correct as necessary, data in inventory records, such as serial or model numbers and manufacturer names, during periodic inventories of P&E. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. SPIF procedures instruct SPIF units to conduct ongoing quality assurance activities to ensure the ADP inventory is maintained properly. However, the final documentation that specifically addresses quality assurance was delayed just prior to signature due to a technical problem. Scheduled completion June 1, 2002.	Open. During fiscal year 2001, we continued to find errors in IRS's P&E records. We will evaluate the effectiveness of IRS's corrective actions during our fiscal year 2002 financial audit.
51	01-27	Perform sufficient supervisory reviews to help ensure that transactions recorded on P&E inventory records are accurately entered into subsidiary records and appropriately supported by documentation. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. IRS will implement an interface between the RTS and ITAMS that would eliminate the need for manual reviews. However, additional work continues with the automated interface with RTS. Scheduled completion October 1, 2002.	Open. We will evaluate the effectiveness of these actions during our fiscal year 2002 financial audit.
52	01-30	Develop policies and procedures to classify program costs according to the nature of the work performed and in a manner commonly understood by users of financial statements. This classification should also be consistent with the classification of related funding requirements in IRS's budgetary requests to the Congress. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. Procedures were developed to classify program costs according to the nature of the work performed. Completed February 16, 2001.	Closed. During fiscal year 2000, IRS revised the format of its statement of net cost and significantly expanded and enhanced the related disclosures. The resulting financial statement presentation appropriately classified the cost of IRS's programs. However, it was not clearly consistent with the related classification of funding requirements in IRS's budgetary requests to the Congress as recommended. During fiscal year 2001, IRS again revised the format of its Statement of Net Cost. The revised format was consistent with IRS's budgetary requests.

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53	01-31	Incorporate into its tax systems modernization plans, as they relate to financial management, the development of a cost accounting system that will track and report, in appropriate detail, the full costs associated with its activities and programs at the project and subproject levels. This system should include a payroll system that provides for activity-based costing of individual jobs to which staff are assigned. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. Cost accounting has been incorporated into plans for the IFS and the cost accounting module is on schedule. Scheduled completion October 1, 2003.	Closed. We confirmed that IRS's plans for IFS include a cost accounting system. We will follow-up on the implementation of IRS's cost accounting system during future audits.
54	01-33	Establish policies and procedures to ensure that all administrative and, to the extent possible, custodial transactions are promptly recorded in the general ledger, preferably within 30 days of the transaction. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. IRS developed internal procedures to ensure that transactions are recorded in a timely manner in the administrative general ledger. Completed August 11, 2000.	Open. During our fiscal year 2001 financial audit, we continued to find substantial delays in the recording of transactions in the custodial and administrative general ledgers. IRS's stated corrective actions do not address custodial transactions. We will continue to monitor IRS's progress in this area.
55	01-34	Incorporate into its systems modernization plan requirements and specifications for a general ledger system that (1) accumulates and summarizes IRS's custodial and administrative transactions for financial reporting purposes, (2) is integrated with its supporting subsidiary records, and (3) is fully compliant with the <i>U.S. Standard General Ledger</i> at the transaction level. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. IRS will implement the CAP to satisfy its custodial financial management needs. Related requirements are included in the blueprint. Scheduled completion April 1, 2003.	Open. We will review the CAP to verify that its requirements address the objectives of the recommendation. IRS's response does not address administrative transactions.

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				Per IRS	Per GAO
56	01-35	Revise procedure manuals to require that accruals be recorded when services have been performed and goods received, regardless of whether an invoice has been received. This may require recording estimates of costs incurred based on reliable data. In these cases, additional detailed guidance should be provided in determining the amounts. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. IRS issued formal guidance requiring that the accruals be entered when services have been performed or when goods are received. Completed August 30, 2000.	Closed. We verified that IRS issued a memorandum requiring that the acceptance date be entered when services have been performed or when goods are received, rather than the date acceptance is input to the accounting system.
57	01-36	Ensure that the acceptance date entered in the Request Tracking System/Integrated Procurement System (RTS/IPS) represents the date that IRS received the goods and services rather than the date acceptance was entered into the system. (Short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. IRS issued guidance directing staff to record the date that goods and services are received as the acceptance date, rather than the date the acceptance was input into the system. Completed August 30, 2000.	Closed. We confirmed that IRS issued guidance directing staff to record the date that goods and services are received as the acceptance date, rather than the date the acceptance was input into the system.
58	01-39	Develop a mechanism to track and report the actual costs associated with reimbursable activities. (Short-term)	<i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001)	Open. IRS's Office of Cost Accounting and Analysis has developed guidance for costing reimbursable agreements. This guidance includes instructions on tracking labor. Completed February 1, 2002.	Open. We confirmed that IRS completed procedures for costing reimbursable agreements that provides the basis framework for the accumulation of these costs. We will follow-up during our fiscal year 2002 financial audit to determine if IRS has procedures in place to ensure it is used to develop costing information for reimbursable agreements.
59	01-40	Establish procedures to periodically reconcile the subsidiary records to the control account for reimbursable receivables to ensure that the balance is adequately supported. (Short-term)	<i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001)	Open. IRS materially reconciled its accounts for reimbursable receivables, and is continuing to do so monthly. Completed March 15, 2002.	Open. IRS has indicated that it completed procedures by March 2002 that address this recommendation. However, IRS's remediation plan continues to list it as an open recommendation. We will verify the effectiveness of these procedures during our fiscal year 2002 financial audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
60	01-41	Routinely age and review currently open reimbursable receivable accounts to identify accounts that are no longer valid or collectible. (Short-term)	<i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001)	Closed. IRS is currently aging and reviewing open reimbursable receivable accounts. Completed July 31, 2001.	Open. IRS made progress on this recommendation by initiating action in fiscal year 2001 to regularly age and review its reimbursable receivable accounts. However, we continued to find recorded reimbursable receivables that were not valid or collectible during our fiscal year 2001 financial audit. We will continue to monitor IRS's progress in this area.
61	01-42	Develop and implement procedures to require that prepayments be recorded as assets routinely at the time the cost is incurred in accordance with generally accepted accounting principles (GAAP). Services that are provided to IRS that will benefit IRS for more than 1 year should be established as prepaid expenses and amortized over the period of the benefit. (Short-term)	<i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001)	Closed. IRS charged depreciation expenses and not the full cost of the assets acquired under the Working Capital Fund (WCF). IRS no longer capitalizes WCF assets on its balance sheet. Completed November 20, 2001.	Closed. We concur with IRS's accounting treatment for this transaction.
62	01-43	Ensure that IRS personnel maintain effective oversight of the completeness and accuracy of contractor-generated information. (Short-term)	<i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001)	Closed. IRS disagrees with GAO's conclusion that contractors were not properly supervised. Completed November 20, 2001.	Open. During fiscal year 2001, we found errors in the contractor-prepared depreciation and capital lease schedules that were not detected by IRS's review. We will continue to review the completeness and accuracy of contractor-generated information during our fiscal year 2002 financial audit.
63	01-44	Ensure compliance with Treasury regulations requiring that all transfers of funds between appropriations be properly approved and documented prior to being recorded in the financial records. (Short-term)	<i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001)	Closed. IRS did not agree with this recommendation. IRS intentionally decided to allow Treasury and IRS funding levels to be out of balance to avert unnecessary workload. Completed November 20, 2001.	Open. IRS's response did not address the issue that gave rise to this recommendation. IRS recorded this transaction in its general ledger before it was approved as required by Treasury regulations. We will review IRS's appropriation balances during our fiscal year 2002 financial audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
64	02-01	Implement policies and procedures to record capitalizable acquisition costs for property and equipment, capital leases, leasehold improvements, and major systems in the appropriate P&E general ledger accounts as transactions occur. (Short-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Open. IRS is in the process of implementing policies and procedures that would apply to the current system and remain in effect for the new integrated financial system. Scheduled completion April 1, 2002.	Open. We will continue to monitor IRS's progress in this area during our fiscal year 2002 financial audit.
65	02-02	Revise the definitions of Sub-Object Class (SOC) codes pertaining to P&E or establish new codes so that individual SOC codes cannot be used for both capitalizable purchases (assets) and noncapitalizable purchases (expenses). For example, the SOC code used to record capitalizable software costs should not be used to record noncapitalizable software license fees. (Short-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Closed. IRS revised the P&E SOC codes and definitions in Standard Announcement #2002-01, Financial Management Codes Handbook. Completed October 1, 2001.	Closed. We confirmed that IRS revised the P&E SOC codes and definitions in Standard Announcement #2002-01, Financial Management Codes Handbook.
66	02-03	Perform periodic reviews to monitor and ensure that obligations are promptly established in the accounting system. Such reviews would assist IRS in maintaining accurate and complete records of its obligations and in reducing the risk of obligations exceeding available funding. (Short-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Closed. IRS issued guidance to all business units requesting a complete review of obligations. Completed June 26, 2001.	Open. IRS's quarterly reviews of unliquidated obligations during fiscal year 2001 did not fully address our recommendation since the review did not (1) identify obligations that may not have been recorded and (2) ensure that obligations were established promptly in the accounting system. During fiscal year 2001, we continued to find instances where IRS did not promptly record obligations in its accounting system. We will continue to monitor the effectiveness of IRS's corrective actions during our fiscal year 2002 financial audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
67	02-04	Incorporate into the systems modernization blueprint the capability to differentiate prior-year adjustments between activities that are valid upward and downward adjustments to obligations and activities that are not valid adjustments to obligations. Such actions would help ensure that activities that are not valid adjustments to obligations are not recorded as adjustments to obligations. (Short-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Closed. IRS has incorporated into IFS's requirements the capability to differentiate between activities that are valid upward and downward adjustments to prior years' obligations and activities that are not valid adjustments to prior years' obligations. IFS's requirements were certified by the Director, Administrative Accounting. Completed November 5, 2001.	Closed. We confirmed that IRS incorporated into IFS's requirements the capability to identify valid upward and downward adjustments to prior years' obligations.
68	02-05	Develop, document, and implement policies and procedures to require that reconciliations between proprietary and budgetary accounts be performed monthly so that differences can be identified in a timely manner, and, if necessary, adjusted. (Short-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Open. IRS will develop, document, and implement policies and procedures to require that reconciliations between proprietary and budgetary accounts be performed monthly so that differences can be identified in a timely manner, and, if necessary, adjusted. Scheduled completion April 1, 2002.	Open. During fiscal year 2001, IRS began comparing related proprietary and budgetary accounts; however, adjustments to correct the differences were not performed prior to closing the accounting period. As a result, interim period balances were materially misstated adversely affecting interim reports relying on those balances. We will continue to monitor IRS's progress during our fiscal year 2002 financial audit.
69	02-06	Develop, document, and implement policies and procedures to require that routine reviews and analyses of general ledger account balances be conducted to promptly identify errors and omissions. (Short-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Open. IRS is developing procedures to address this recommendation. Scheduled completion April 1, 2002.	Open. We will review these procedures during our fiscal year 2002 audit, and assess the effectiveness of their implementation.
70	02-07	Develop, document, and implement policies and procedures to require that corrections and adjusting entries be recorded throughout the year to reduce the magnitude of year-end adjustments and improve the reliability of interim financial data. (Short-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Open. IRS will develop, document, and implement policies and procedures to require that corrections and adjusting entries be recorded throughout the year to reduce the magnitude of year-end adjustments and improve the reliability of interim financial data. Scheduled completion April 1, 2002.	Open. We will review these procedures during our fiscal year 2002 audit, and assess the effectiveness of their implementation.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
71	02-08	Implement policies and procedures to require that all employees itemize on their time cards the time spent on specific projects. (Long-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Closed. IRS disagreed with this recommendation. IRS indicated that most of its employees already itemize their time charges in functional tracking systems. Completed December 19, 2001.	Open. We confirmed that IRS employees use functional tracking (workload management) systems to itemize and track their time charges. However, we found that these systems do not interface with each other or the general ledger to allow management to use them to readily accumulate the time charged to specific projects. We will follow-up on IRS's implementation of IFS's cost accounting module that is intended to resolve the issue that gave rise to this recommendation.
72	02-09	Implement policies and procedures to allocate nonpersonnel costs to programs and activities on a routine basis throughout the year. (Short-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Open. IRS agreed with this recommendation and indicated plans to address this issue with the cost accounting module that will be part of the IFS. Scheduled completion October 1, 2003.	Open. We will verify that the IFS plans include requirements that meet the objectives of this recommendation, and follow-up on their implementation once the IFS is completed.
73	02-10	Document reviews performed to validate that performance data are complete, accurate, and reliable. (Short-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Open. IRS's remediation plan did not address this recommendation.	Open. We will review IRS's procedures during our fiscal year 2002 audit, and assess the effectiveness of their implementation.
74	02-11	We recommend that the Commissioner of Internal Revenue direct IRS management to develop policies and procedures to require that field office employees provide taxpayers receipts for all walk-in payments. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS revised document 10161 to indicate a receipt is available upon request and posted signs in all Taxpayer Assistance Centers or field offices notifying taxpayers that they can request a receipt. Completion data not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
75	02-12	We recommend that the Commissioner of Internal Revenue direct IRS management to develop policies and procedures to require that field offices post signs in the most visible locations to remind taxpayers to obtain receipts for payments. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS revised document 10161 to indicate a receipt is available upon request and posted signs in all Taxpayer Assistance Centers or field offices notifying taxpayers that they can request a receipt. Completion data not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
76	02-13	We recommend that the Commissioner of Internal Revenue direct IRS management to develop policies and procedures to require that two employees be present when payments are collected and logged from drop boxes. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS distributed to Taxpayer Assistance Centers or field offices a procedural memo outlining separation of duties to emphasize the need to have more than one employee process drop box payments. Scheduled completion date not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
77	02-14	We recommend that the Commissioner of Internal Revenue direct IRS management to develop policies and procedures to require that IRS and lockbox employees performing final candling record receipts in a control log at the time of discovery, recording at a minimum the total number of payments found, the amount of each payment, and the taxpayer who submitted the payment. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS established a task force to develop procedures to reconcile payment logs. IRS will also include these procedures in changes to the LPG. Scheduled completion January 2003.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
78	02-15	We recommend that the Commissioner of Internal Revenue direct IRS management to develop policies and procedures to require that IRS and lockbox managers or designated officials reconcile logs of payments found during final candling to the related receipts and documents. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS established a task force to develop procedures to reconcile payment logs. IRS will also include these procedures in changes to the LPG. Scheduled completion January 2003.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
79	02-16	We recommend that the Commissioner of Internal Revenue direct IRS headquarters management to ensure that field office management comply with existing receipt control policies that require a segregation of duties between employees who prepare control logs for walk-in payments and employees who reconcile the control logs to the actual payments. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS established a task force to develop procedures to reconcile payment logs. Scheduled completion October 1, 2002.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
80	02-17	We recommend that the Commissioner of Internal Revenue direct IRS headquarters management to clarify that the intent of the requirement for background investigations is meant to apply to personnel being entrusted with taxpayer receipts and information rather than just personnel being granted access to an IRS facility. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS agreed that courier service employees should undergo background checks. IRS is working with FMS to modify the courier service contracts. Scheduled completion date not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
81	02-18	We recommend that the Commissioner of Internal Revenue direct IRS management to work with the National Finance Center to resolve the technical limitations that exist within the Security Entry and Tracking System (SETS) database and continue to periodically review SETS data to detect and correct errors. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS will request a dialog with the National Finance Center with the goal of making SETS a better tool for tracking fingerprints and background investigations. Scheduled completion date not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
82	02-19	We recommend that the Commissioner of Internal Revenue direct IRS management to issue a formal reminder of existing IRS manual refund procedures to supervisors and staff. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Closed. IRS issued an information alert reminding staff to monitor manual refunds to prevent issuance of duplicate refunds and to monitor their reviews. Completed December 6, 2001.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
83	02-20	We recommend that the Commissioner of Internal Revenue direct IRS management to establish procedures to track the release of liens up to the point of delivery to the local jurisdiction to ensure liens are released timely to avoid unduly burdening the taxpayer once they have satisfied their tax liability. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS agreed that its procedures should include monitoring the mailing of certificates of lien releases after the Automated Lien System generates the certificate. IRS is formulating procedures requiring a date stamp (mailing date) on the billing voucher. When these procedures are issued, IRS will reemphasize the need to timely accomplish all other processing steps. Scheduled completion date not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
84	02-21	We recommend that the Commissioner of Internal Revenue direct IRS management to ensure that complete skeletal records are created and available for the SPIF units to update upon receipt of P&E. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS is (1) developing requirements to implement an Electronic Packing Slip, (2) expanding its use of network monitoring tools to track asset activity, and (3) refining transactional business rules to enhance and tighten data validation prior to entry into the database. Scheduled completion date not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
85	02-22	We recommend that the Commissioner of Internal Revenue direct IRS management to develop procedures and edit checks to reduce the likelihood of invalid property records. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS is (1) developing requirements to implement an Electronic Packing Slip, (2) expanding its use of network monitoring tools to track asset activity, and (3) refining transactional business rules to enhance and tighten data validation prior to entry into the database. Scheduled completion date not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
86	02-23	We recommend that the Commissioner of Internal Revenue direct IRS management to develop and implement procedures to ensure that procurement award and requisition numbers recorded on property records are complete, accurate, and linked to the accounting records. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. The Electronic Packing Slip will require vendors to include requisition and procurement numbers of equipment purchases at the time of shipment. Full integration of inventory procurement and accounting will occur with the implementation of IFS. Scheduled completion date not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
87	02-24	We recommend that the Commissioner of Internal Revenue direct IRS management to record software licenses in IRS's property management system. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS is executing an action plan that will allow them to populate the existing software data into the ITAMS database.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
88	02-25	We recommend that the Commissioner of Internal Revenue direct IRS management to develop an approach to assess IRS's compliance with the terms of these software licenses. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS is developing an action plan that will set policies and procedures for the review and compliance to the terms of the licenses. Scheduled completion date not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.
89	02-26	We recommend that the Commissioner of Internal Revenue direct IRS management to ensure that, in the absence of an integrated general ledger system for IRS's custodial and administrative activities, IRS strengthens monitoring and analysis of receivables to ensure that receivables are not being erroneously recorded as a result of the lack of integration between these two activities. (Short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Open. IRS is reconciling all reimbursable receivable accounts with the appropriate general ledger accounts monthly. As part of this process, IRS is monitoring activities between custodial and administrative accounts. IRS is also developing and testing new AFS transactions to properly record activity affecting prior-year accounts identified in GAO's fiscal year 2001 audit. Scheduled completion date not specified.	Open. We will review IRS's corrective actions during our fiscal year 2002 financial audit.

Note: Recommendations in bold are those considered to be of the highest priority.

Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

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

July 17, 2002

Mr. Steven J. Sebastian
Acting Director
Financial Management and Assurance
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Sebastian:

I am writing to comment on your draft report titled, *Internal Revenue Service: Status of Recommendations from Financial Audits and Related Financial Management Reports*. Based on our review, I am providing an updated status on each audit recommendation.

You mentioned in the draft report that we had closed 26 of the 89 cited audit recommendations. Based upon discussions with you after the draft report was issued, we now agree that 27 recommendations are closed. I believe during the course of your fiscal year 2002 audit, you will find we have taken actions to allow closure of a number of additional recommendations. As you stated, some recommendations, such as those related to modernization, require more time to address and will require our sustained commitment. We are actively working to implement corrective actions to address all remaining open recommendations.

I appreciate the GAO's acknowledgement of our significant improvements over the last several years. I also recognize we must stay committed to improving financial management.

Sincerely,


Bob Wenzel

Enclosure

GAO Contacts and Staff Acknowledgments

GAO Contacts

Steven Sebastian, (202) 512-3406
Charles Fox, (202) 512-5261

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In addition to those named above, Meafelia Gusukuma, John Davis, William Cordrey, Delores Lee, George Jones, Leonard Zapata, Gloria Cano, and Beverly Burke made key contributions to this report.

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Jeff Nelligan, managing director, NelliganJ@gao.gov (202) 512-4800
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