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Accessible Version

May 25, 2023

The Honorable Danny Werfel
Commissioner of the Internal Revenue Service

Management Report: Improvements Needed in IRS’s Financial Reporting and Information System Controls

Dear Mr. Werfel:

On November 10, 2022, we issued our auditor’s report on the results of our audits of the fiscal years 2022 and 2021 financial statements of the Internal Revenue Service (IRS).¹ As part of these audits, we assessed IRS’s key financial reporting controls, including information system controls.

As we reported in connection with our audits of IRS’s fiscal years 2022 and 2021 financial statements, although certain internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022. Those controls provided reasonable assurance that misstatements material to IRS’s financial statements would be prevented, or detected and corrected, on a timely basis.

Our fiscal year 2022 audit continued to identify two significant deficiencies² in internal control over financial reporting concerning IRS’s unpaid assessments³ and financial reporting systems. We also identified other deficiencies in IRS’s internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nevertheless, these deficiencies warrant IRS management’s attention.

This report presents the new control deficiencies we identified during our fiscal year 2022 testing of IRS’s internal control over financial reporting. This report also includes the results of our follow-up on the status of IRS’s corrective actions to address recommendations from our

¹GAO, *Financial Audit: IRS’s FY 2022 and FY 2021 Financial Statements*, [GAO-23-105564](#) (Washington, D.C.: Nov. 10, 2022).

²A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

³An unpaid assessment is an enforceable claim against a taxpayer for which specific amounts are due, have been determined, and the person(s) or entities from which a tax is due have been identified. See implementing guidance in the *Internal Revenue Manual* § 1.34.4.1.6(1) p, *Terms/Definitions* (Aug. 25, 2015).

prior years' reports related to internal control over financial reporting that remained open as of September 30, 2021.⁴

We are concurrently releasing a LIMITED OFFICIAL USE ONLY report that presents detailed information on the new sensitive control deficiencies we identified during our fiscal year 2022 testing of IRS's internal control over financial reporting as well as the sensitive prior year recommendations.⁵ IRS deemed much of the information in the LIMITED OFFICIAL USE ONLY report to be sensitive information, which must be protected from public disclosure. Therefore, this report omits the sensitive information. Although the information provided in this report is more limited, the report addresses the same objectives as the LIMITED OFFICIAL USE ONLY report and uses the same methodology.

Results in Brief

During our fiscal year 2022 audit, we identified five new deficiencies in internal control over financial reporting. Two deficiencies related to information system controls, specifically in access controls and configuration management, and contributed to our reported continuing significant deficiency in IRS's internal control over financial reporting systems. Two deficiencies related to tax refunds and one deficiency related to safeguarding assets. Although these deficiencies are not considered material weaknesses or significant deficiencies, they nevertheless warrant IRS management's attention. We are making three new recommendations in this report to address the control deficiencies related to tax refunds and safeguarding assets. Enclosure I provides the detailed control deficiencies and associated recommendations. In a separate LIMITED OFFICIAL USE ONLY report, we are making 16 new recommendations to address the control deficiencies related to information systems.

In addition, we determined that IRS had completed corrective actions on 28 of 60 recommendations from our prior years' reports related to internal control over financial reporting that remained open as of September 30, 2021. IRS's actions addressed

- five transaction cycle recommendations,⁶
- 17 information system recommendations, and
- six safeguarding assets recommendations.

Therefore, including prior and new recommendations, IRS currently has 51 open recommendations related to internal control over financial reporting to address:

- seven transaction cycle recommendations (including two that are new),
- 40 information system recommendations (including 16 that are new), and
- four safeguarding assets recommendations (including one that is new).

Enclosure II provides the 19 open recommendations that are not sensitive in nature from our prior years' reports related to internal control over financial reporting and the status of IRS's corrective actions as of September 30, 2022. The LIMITED OFFICIAL USE ONLY report

⁴GAO, *Management Report: IRS Needs to Improve Financial Reporting and Information System Controls*, [GAO-22-105559](#) and [GAO-22-105558SU](#) (Washington, D.C.: May 25, 2022).

⁵GAO, *Management Report: Improvements Needed in IRS's Financial Reporting and Information System Controls*, [GAO-23-106402SU](#) (Washington, D.C.: May 25, 2023).

⁶A transaction cycle is a set of business transactions that processes control activities to provide reasonable assurance that relevant financial statement assertions are met.

contains the open recommendations that are sensitive and not sensitive in nature from our prior years' reports related to internal control over financial reporting and the status of IRS's corrective actions as of September 30, 2022.

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

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

Objectives, Scope, and Methodology

Our objectives were to

- evaluate IRS's internal control over financial reporting⁷ and
- determine the status of IRS's corrective actions to address recommendations from our prior years' reports related to internal control over financial reporting that remained open as of September 30, 2021.

To accomplish these objectives, we reviewed IRS policies and procedures; interviewed IRS management and staff; observed controls in operation; and conducted tests of controls to determine whether controls were designed, implemented, and operating effectively. We performed this work in connection with our audits of IRS's fiscal years 2022 and 2021 financial statements, to support our opinion on whether IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022. We based our evaluation on the *Financial Audit Manual*⁸ and *Federal Information System Controls Audit Manual*.⁹

During the course of our work, we communicated our findings to IRS management. We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe that our audit provides a reasonable basis for our findings and recommendations in

⁷An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

⁸GAO and Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual Volume 1*, [GAO-22-105894](#) (June 2022), presents a methodology for performing financial statement audits of federal entities in accordance with professional standards.

⁹GAO, *Federal Information System Controls Audit Manual (FISCAM)*, [GAO-09-232G](#) (Washington, D.C.: February 2009), presents a methodology for auditing information system controls in federal and other governmental entities in accordance with professional standards.

this report and our findings and recommendations in our separately issued LIMITED OFFICIAL USE ONLY report.

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

During our fiscal year 2022 audit, we identified five new control deficiencies in internal control over financial reporting. Two deficiencies related to information system controls, specifically in access controls and configuration management, and contributed to our reported continuing significant deficiency in IRS's internal control over financial reporting systems. In addition, two deficiencies related to tax refunds and one deficiency related to safeguarding assets. Although these deficiencies are not considered material weaknesses or significant deficiencies, they nevertheless warrant IRS management's attention. We summarize these five new deficiencies below and present a more detailed discussion of the deficiencies related to tax refunds and safeguarding assets, and our associated recommendations, in enclosure I. In a separate LIMITED OFFICIAL USE ONLY report, we provide a more detailed discussion of the deficiencies related to information system controls and our associated recommendations.

Information System Access Controls

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

We identified one deficiency in access controls related to audit and monitoring where IRS did not adequately monitor audit logs for certain financial and supporting systems.

Information System Configuration Management

Configuration management involves identifying and managing security features for all hardware, software, and firmware components of an information system at a given point, and systematically controlling changes to that configuration during the system's life cycle. Appropriately designed and implemented configuration management controls provide reasonable assurance that systems are operating securely and as intended. They encompass policies, plans, and procedures that call for proper authorization, testing, approval, and tracking of all configuration changes and for timely software updates to protect against known vulnerabilities.

We identified one deficiency in configuration management related to configuration settings where IRS did not configure a database to meet a security configuration setting.

Tax Refunds

As part of IRS administration of tax law responsibilities, IRS issues tax refunds. The majority of IRS tax refunds result from taxpayer overpayments, which are amounts a taxpayer paid that exceed the taxpayer's reported tax assessments, during a tax period for which a tax return is

filed.¹⁰ In addition, IRS can initiate tax refunds when tax examiners enter adjustments, such as abatements, to taxpayer accounts. Appropriately designed and implemented controls over tax refunds can help reduce the risk of erroneous and fraudulent refund disbursements.

We identified two deficiencies in processing tax refunds where IRS did not

- comply with the Department of the Treasury’s Bureau of the Fiscal Service requirement for certifying officers to complete the Fiscal Service Certifying Officer Training before renewal of their designation and
- comply with its established procedures for addressing and correcting two error codes generated on tax returns.

Safeguarding Assets

Safeguarding assets consists of the processes and controls that involve protecting custodial and noncustodial assets that include the prevention of loss, theft, and inappropriate disclosure or misuse by employees and other individuals. Custodial and noncustodial assets consist of (1) electronic and hard-copy taxpayer receipts, (2) taxpayer information, (3) facilities (e.g., campuses, lockbox banks, computing centers, field offices, etc.), (4) general property and equipment, and (5) other nontax collections and receipts. Appropriately designed and implemented safeguarding controls help to prevent the loss, theft, and inappropriate disclosure or misuse of custodial and noncustodial assets.

We identified one deficiency in safeguarding assets where IRS did not timely provide the information needed to support a variety of financial transactions for refunds, abatements, and tax assessments.

Status of Prior Years’ Recommendations Related to Internal Control over Financial Reporting

IRS has continued to address many of the control deficiencies and associated recommendations related to internal control over financial reporting from our prior years’ reports. As of September 30, 2021, there were 10 transaction cycle recommendations, 41 information system recommendations, and nine safeguarding assets recommendations from prior years’ reports that we reported as open in our May 2022 reports.¹¹ During our fiscal year 2022 audit, we determined the following:

- IRS completed corrective actions to address five of 10 transaction cycle recommendations from our prior years’ reports. As a result, seven transaction cycle recommendations—five from our prior years’ reports and two new recommendations that we are making in this report—need to be addressed.
- IRS completed corrective actions to address 17 of the 41 information system recommendations from our prior years’ reports. As a result, 40 information system recommendations—24 from our prior years’ reports and 16 new recommendations that we are making in the LIMITED OFFICIAL USE ONLY report—need to be addressed.

¹⁰Most individual taxpayers use the calendar year that begins on January 1 and ends on December 31. However, upon request, IRS allows some individuals to use a different 12-month tax period; for example, the period may begin on June 1 and end on May 30 of the following year.

¹¹[GAO-22-105559](#) and [GAO-22-105558SU](#).

- IRS completed corrective actions to address six of the nine safeguarding assets recommendations from our prior years' reports. As a result, four safeguarding assets recommendations—three from our prior years' reports and one new recommendation that we are making in this report—need to be addressed.

It will be important for IRS management to continue focusing efforts on timely addressing the remaining recommendations, some of which have been open since fiscal year 2012, related to the deficiencies in internal control over financial reporting.

See table 1 for a status of our open recommendations related to internal control over financial reporting, and see enclosure II for the detailed status of 19 open recommendations that are not sensitive in nature from our prior years' reports related to internal control over financial reporting and the status of IRS's corrective actions as of September 30, 2022. The LIMITED OFFICIAL USE ONLY report contains the status of each of the prior years' open recommendations that are sensitive and not sensitive in nature.

Table 1: Status of GAO Recommendations to Internal Revenue Service Related to Internal Control over Financial Reporting

Audit area	Open prior years' recommendations through the FY 2021 audit	Prior years' recommendations closed in the FY 2022 audit	New recommendations resulting from the FY 2022 audit	Total open recommendations resulting from the FY 2022 audit
Transaction cycles				
Unpaid assessments	1	—	—	1
Tax refunds	5	2	2	5
Tax credits	2	1	—	1
Property and equipment	1	1	—	—
Nonpayroll	1	1	—	—
Total (transaction cycles)	10	5	2	7
Information systems				
Access controls				
Boundary protection	1	1	—	—
Identification and authentication	7	4	—	3
Sensitive system resources	16	1	—	15
Audit and monitoring	1	1	15	15
Total (access controls)	25	7	15	33
Configuration management				
Software updates	2	1	—	1
Configuration settings	11	6	1	6

Audit area	Open prior years' recommendations through the FY 2021 audit	Prior years' recommendations closed in the FY 2022 audit	New recommendations resulting from the FY 2022 audit	Total open recommendations resulting from the FY 2022 audit
Monitor configuration information	1	1	—	—
Total (configuration management)	14	8	1	7
Security management	2	2	—	—
Total (information systems)	41	17	16	40
Safeguarding assets	9	6	1	4
Total	60	28	19	51

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

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-23-106401

Conclusions

During our fiscal year 2022 audit, we identified new and continuing control deficiencies in IRS's internal control over financial reporting. The deficiencies related to information systems and safeguarding assets increase the risk of unauthorized access to, modification of, or disclosure of financial and sensitive taxpayer data and disruption of critical operations. The deficiencies related to transaction cycles increase the risk of financial statement misstatements. IRS mitigated the potential effect of these control deficiencies primarily through compensating controls that management designed to help detect potential financial statement misstatements. As part of our audit of IRS's fiscal year 2023 financial statements, we plan to follow up with IRS to determine the status of corrective actions it has taken on our new recommendations and those prior years' recommendations reported as open in this report (see enc. I and enc. II).

Recommendations for Executive Action

To address the new control deficiencies identified in this report, we are making three recommendations that we detail in enclosure I and 16 recommendations that we detail in our separately issued LIMITED OFFICIAL USE ONLY report.

Agency Comments and Our Evaluation

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

In regard to our recommendation to IRS to review and update IRS's process to provide reasonable assurance that tax examiners comply with the requirement to address and correct error codes 004 and 230, IRS stated that it had addressed the recommendation by issuing a Servicewide Electronic Research Program Alert. This alert reminded Error Resolution System Unit tax examiners to correct all coding and transcription errors in displayed record fields, including error codes 004 and 230. However, the alert does not sufficiently address the process for monitoring tax examiners to provide reasonable assurance that tax examiners will comply

with the requirement. Until IRS addresses the recommendation, an increased risk of processing and disbursing erroneous refunds exists. We plan to follow up with IRS on this recommendation as part of our audit of IRS's fiscal year 2023 financial statements.

In a separately issued LIMITED OFFICIAL USE ONLY report, IRS agreed with our 16 new recommendations to address control deficiencies in information systems.

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

If you or your staff have any questions about this report, please contact Dawn B. Simpson at (202) 512-3406 or simpsondb@gao.gov or Jennifer R. Franks at (404) 679-1831 or franksj@gao.gov. GAO staff members who made key contributions to this report include Mark Canter (Assistant Director), Nina Crocker (Assistant Director), Sher'rie Bacon, Leland Buggie, Kisa Bushyeager, Joseph Crays, Stephen Duraiswamy, Sherwyn Hunte, Tyrone Hutchins, J. Andrew Long, Kevin Metcalfe, Koushik Nalluru, and Monasha Thompson.

Sincerely yours,



Dawn B. Simpson
Director, Financial Management and Assurance



Jennifer R. Franks
Director, Information Technology and Cybersecurity

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Enclosure I

New Tax Refunds and Safeguarding Assets Control Deficiencies in IRS's Internal Control over Financial Reporting

This enclosure presents detailed, nonsensitive information on the new deficiencies in internal control over financial reporting we identified during our audit of the Internal Revenue Service's (IRS) fiscal year 2022 financial statements, and includes our related recommendations.¹²

Specifically, this enclosure presents the new deficiencies related to tax refunds and safeguarding assets. This enclosure also includes our recommendations that if effectively implemented should mitigate or correct the deficiencies. In a separate, LIMITED OFFICIAL USE ONLY report, we present detailed sensitive information on the new deficiencies related to information systems.

Tax Refunds

1. Certifying Officer Training Requirements Not Followed

IRS disburses tax refund payments through the Department of the Treasury's Bureau of the Fiscal Service using the Secure Payment System.¹³ The Secure Payment System allows designated IRS personnel to create, certify, and submit payment schedules to Fiscal Service. Fiscal Service requires IRS to use the Secure Payment System to create the payment schedules. IRS's System Control Processing and Validation Section certifies payment schedules for each of its Submission Processing Centers. A certifying officer in the System Control Processing and Validation Section examines the payment schedule and, upon verification, certifies the schedule in the Secure Payment System, which results in the system submitting the schedule to Fiscal Service for issuance of the refund check or direct deposit.

Fiscal Service requires that an IRS authorized official designate IRS personnel as a certifying officer. The certifying officer designation is valid for a period of 1 year from the effective date. IRS renews the certifying officer designations prior to their expiration. As part of the renewal, Fiscal Service requires that certifying officers complete Fiscal Service Certifying Officer Training, which provides the content and skills needed to certify the validity of IRS's payments. IRS documents its tax refund certification procedures, including training requirements, in the System Control Processing and Validation Section standard operating procedures.

Condition. The System Control Processing and Validation Section certifying officers did not comply with Fiscal Service's requirement to complete the Fiscal Service Certifying Officer Training within 30 days prior to the renewal of their designation.

Criteria. The *Treasury Financial Manual* requires certifying officer designees to take Fiscal Service Certifying Officer Training within 30 days prior to the renewal of the designation.¹⁴ Further, IRS's procedures require certifying officers to complete the aforementioned training within the 30-day period.

¹²An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

¹³Submission Processing Centers are located in Austin, Texas; Kansas City, Missouri; and Ogden, Utah.

¹⁴*Treasury Financial Manual*, vol. I, pt. 4A, ch. 3000, sec. 3075 - *Renewals of Delegations and Designations*.

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Cause. IRS did not have a process to monitor whether the System Control Processing and Validation Section certifying officers were complying with Fiscal Service's requirement to complete their training within 30 days prior to the renewal of their designations.

Effect. By not following the procedures in place for the System Control Processing and Validation Section certifying officers to complete their training within 30 days prior to the renewal of their designation as Fiscal Service required, IRS is at an increased risk that unauthorized individuals may certify payment schedules to Fiscal Service for invalid refunds.

Recommendation for Executive Action. The Commissioner of the Internal Revenue Service should establish a process to provide reasonable assurance that the System Control Processing and Validation Section certifying officers comply with the requirement to complete the Fiscal Service Certifying Officer Training within 30 days prior to the renewal of their designations. (Recommendation 1)

2. Requirements to Address Error Codes Not Enforced

IRS's Error Resolution System Unit is responsible for correcting errors identified on tax returns during the Generalized Mainline Framework processing of paper and electronic returns. The Generalized Mainline Framework performs a series of verification checks—validation, consistency, and math—on tax return data and taxpayer entity information before allowing the tax returns to continue processing. The Generalized Mainline Framework assigns an error code to tax returns that do not pass these checks. The Error Resolution System Unit tax examiners are responsible for correcting the error codes generated on the tax return before the return continues processing. To address error codes, the Error Resolution System Unit tax examiners use procedures established in the *Internal Revenue Manual* (IRM).

Condition. In our review of 15 tax returns processed through the Error Resolution System Unit, we found that for two tax returns the Error Resolution System Unit tax examiners did not comply with IRS's established procedures for addressing and correcting error codes 004 and 230 generated on tax returns. Specifically, for error code 004—generated when a Social Security number is incorrect—the tax examiner did not correct the Social Security number that had been incorrectly transcribed from the tax return. For error code 230—generated when there is a coding or transcription error—the tax examiner did not correct the charitable contributions deduction that had been incorrectly transcribed from the tax return.

Criteria. The IRM provides tax examiners instructions for correcting coding and transcription errors and misplaced entries in displayed fields, such as the correction of (1) an incorrect Social Security number and (2) a charitable contribution deduction.¹⁵

Cause. While IRS has a process to review a certain number of tax examiner cases, this process was not effective for monitoring whether tax examiners were addressing and correcting error codes 004 and 230 as required.

Effect. By tax examiners not following established procedures for addressing error codes, IRS increases its risk of processing and disbursing erroneous refunds.

Recommendation for Executive Action. The Commissioner of the Internal Revenue Service should review and update IRS's process to provide reasonable assurance that tax examiners

¹⁵IRM § 3.12.3.3.4.3, *Correction Procedures (EC 004)* (Apr. 25, 2022), relates to Social Security numbers and Individual Taxpayer Identification Numbers, and IRM § 3.12.3.22.12.3, *Correction Procedures (EC 230)* (Apr. 25, 2022), relates to coding and transcription errors.

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comply with the requirement to address and correct error codes 004 and 230. (Recommendation 2)

Safeguarding Assets

3. Taxpayer Information Not Timely Located

Each year at its submission processing centers, IRS receives and processes large volumes of paper tax returns and other taxpayer information, such as administrative files that include documents that support adjustments to taxpayer accounts. After processing the tax returns and administrative files, staff transfer the information in carts to the filing unit (Files Function). The Files Function inventories the tax returns and administrative files and then puts them on shelves in the secure storage facility. According to the IRM, the Files Function is to file tax returns in the secure storage facility within 1 workday during nonpeak season (October 1 through March 31) and 2 workdays during peak season (April 1 through September 30). The Files Function is to file administrative files in the secure storage facility within 13 workdays of receipt. The tax returns and administrative files wait in carts outside of the file room until filed in the secure storage facility.

The Files Function also services requests for processed tax returns. At each Submission Processing Center, a files coordinator handles the requests and coordinates requests with other Submission Processing Centers within the established timeline requirements.

Condition. IRS did not timely provide the information needed to support a variety of financial transactions for refunds, abatements, and tax assessments. Specifically, as part of our testing of transactions recorded on IRS's financial statements, IRS did not timely provide a tax return and several administrative files to support certain financial transactions.

Criteria. The IRM directs tax returns to be filed by 1 workday during nonpeak season (October 1 through March 31) and 2 workdays during peak season (April 1 through September 30).¹⁶ The IRM directs administrative files to be filed within 13 workdays of receipt.¹⁷ The IRM also provides that the Files Function is to pull tax returns and administrative files related to Expedite requests, which include requests from GAO and the Treasury Inspector General for Tax Administration, within 1 workday.¹⁸

Cause. IRS could not timely locate the information needed to support a variety of financial transactions for refunds, abatements, and tax assessments.

Effect. Because IRS could not locate the information needed to support a variety of financial transactions for refunds, abatements, and tax assessments in a timely manner, IRS increases its risks of loss, theft, or inappropriate disclosure of taxpayer information that may occur while taxpayer information is waiting to be filed. IRS also increases its risk of misreporting amounts on its financial statements.

Recommendation for Executive Action. The Commissioner of the Internal Revenue Service should direct the appropriate officials to establish and implement actions to provide reasonable

¹⁶IRM § 3.30.123.5.12, *Timely Pulling and Refiling of Returns* (May 6, 2022).

¹⁷IRM § 3.5.61.1.13, *Timeliness Requirements* (Jan. 1, 2023).

¹⁸IRM § 3.5.61.14.1, *Files Coordination Point - Special Search* (Jan. 1, 2023), and IRM § 3.5.61.1.13, *Timeliness Requirements* (Jan. 1, 2023).

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assurance that requests for information are provided in a timely manner as required.
(Recommendation 3)

Enclosure II

Status of Prior Years' Recommendations Related to Internal Control over Financial Reporting

Our fiscal year 2022 audit included following up on the status of the Internal Revenue Service's corrective actions to address recommendations from our prior years' reports related to internal control over financial reporting that remained open as of September 30, 2021. Table 2 summarizes the corrective actions taken related to 19 previously reported recommendations that are not sensitive in nature and indicates whether the recommendations were open or closed as of September 30, 2022. The LIMITED OFFICIAL USE ONLY report contains the previously reported sensitive and nonsensitive recommendations and indicates whether the recommendations were open or closed as of September 30, 2022. We define the abbreviations used in the legend at the end of the table.

Table 2: Status of Prior Years' Recommendations Related to Internal Control over Financial Reporting as of September 30, 2022

No.	GAO source report and recommendation number	Recommendation and actions taken	Fiscal year initially identified	Status
Transaction cycles				
Unpaid assessments				
1.	GAO-19-412R , #19-01	<p>Implement the necessary actions to effectively address the two primary causes of the significant deficiency in IRS's internal control over unpaid assessments. These actions should (1) resolve the system limitations affecting the recording and maintenance of reliable and appropriately classified unpaid assessments and related taxpayer data to support timely and informed management decisions, and enable appropriate financial reporting of unpaid assessment balances throughout the year, and (2) identify the control deficiencies that result in significant errors in taxpayer accounts and implement control procedures to routinely and effectively prevent, or detect and correct, such errors.</p> <p>Actions taken:</p> <p>During fiscal year 2019, IRS documented the key management decisions in the design and use of the estimation process. However, IRS told us that it placed corrective actions on hold because of limited resources. As a result, this recommendation remains open as of September 30, 2022.</p>	2018	Open
Tax refunds				
2.	GAO-16-457R , #16-07	Determine the reason(s) why staff did not always comply with IRS's established policies and procedures related to initiating, monitoring, and reviewing the monitoring of manual refunds and, based on this determination, establish a process to better enforce compliance with these requirements.	2015	Open

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No.	GAO source report and recommendation number	Recommendation and actions taken	Fiscal year initially identified	Status
		<p>Actions taken:</p> <p>During fiscal year 2019, IRS determined that a fully automated process to perform monitoring of manual refunds is the optimal solution to address, at an enterprise level, deficiencies associated with relying on employees to monitor refunds in process and take appropriate action when they encounter potential duplicate or erroneous refund conditions. In addition, IRS plans to develop business requirements and request programming through the Unified Work Request. However, IRS told us that it placed corrective actions on hold because of limited resources. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2022, and that this recommendation remains open.</p>		
3.	GAO-16-457R , #16-10	<p>Identify the cause of and implement a solution for dealing with the periodic backlogs of ICO inventory that is hampering the performance of quality reviews.</p> <p>Actions taken:</p> <p>During fiscal year 2020, IRS updated its IRM to remove the requirement to perform quality reviews of at least four cases per week for each employee. However, the updated IRM still requires a quality review of at least 260 cases for each employee during the year. In addition, IRS created plans for dealing with backlogs, which included using seasonal employees, overtime, cross-training, and transferring work to other SPCs. During our fiscal year 2022 review of ICO's performance of its quality reviews at IRS's Austin SPC, we found no exceptions to IRS's implementation of these updated procedures. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>	2015	Closed
4.	GAO-19-412R , #19-08	<p>Update and implement policies or procedures, or both, to clearly define the roles and responsibilities of second-level managers and IDRS security account administrators for validating the information on USR designation forms, including specifying how the information should be validated.</p> <p>Actions taken:</p> <p>During fiscal year 2021, IRS updated the job aid for processing USR designation forms to include procedures for second-level managers and IDRS security account administrators to validate information on the USR designation forms. During our fiscal year 2022 review of IRS's updated job aid and testing of USR designation forms, we found no exceptions to IRS's implementation of these updated procedures. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>	2018	Closed
5.	GAO-19-412R , #19-11	<p>Implement a validity check in the ISRP system to confirm that RSNs that Data Conversion key entry operators enter into the system have the required 14 digits.</p>	2018	Open

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No.	GAO source report and recommendation number	Recommendation and actions taken	Fiscal year initially identified	Status
Actions taken:				
During fiscal year 2022, IRS implemented programming changes to ISRP that restricted the input of each individual character of the 14-character RSN. However, during our fiscal year 2022 testing, we continued to find that Data Conversion key entry operators were not entering the required 14-character RSN in the ISRP system. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2022, and that this recommendation remains open.				
6.	GAO-20-480R, #20-02	Establish and implement manual refund procedures to direct (1) initiators to document (e.g., record on the taxpayers' accounts or annotate on the related manual refund forms) the justification for bypassing the IAT tool warning related to potential duplicate tax refunds on taxpayers' accounts and (2) managers to monitor whether such warnings were bypassed and review the justifications for reasonableness prior to approving manual refund forms.	2019	Open
Actions taken:				
During our fiscal year 2022 audit, IRS officials told us that they plan to address this recommendation in the future. As a result, this recommendation remains open as of September 30, 2022.				
Tax credits				
7.	GAO-19-412R, #19-12	Update and implement policies or procedures, or both, to require that reviewers follow up with tax examiners to verify the errors that tax examiners made in working on cases related to suspicious or questionable tax returns are corrected.	2018	Closed
Actions taken:				
In March 2020, IRS updated its IRM to require that reviewers follow up with tax examiners to verify that errors tax examiners made while working cases are corrected. The updated IRM includes policies and procedures for managers and leads to (1) document all cases reviewed, (2) track errors found in case reviews, and (3) follow up with tax examiners to ensure that the errors identified have been corrected. During fiscal year 2022, we observed tax examiners working on cases related to suspicious or questionable tax returns. We found no exceptions to IRS's implementation of these updated procedures. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.				
Property and equipment				
8.	GAO-16-457R, #16-13	Establish and implement monitoring procedures designed to reasonably assure that the key detailed information for tangible capitalized P&E is properly recorded and updated in the KISAM system.	2015	Closed

Enclosure II

No.	GAO source report and recommendation number	Recommendation and actions taken	Fiscal year initially identified	Status
Actions taken:				
<p>IRS established the Asset Management Program Monitoring and Review procedure, effective October 1, 2016, for performing quarterly sample reviews of IT assets in KISAM. In September 2017, IRS also revised the IRM to require FMSS territory managers or section chiefs to review KISAM key data elements for non-IT assets to verify that they are correct and updated. We assessed IRS's corrective actions addressing this recommendation and concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>				
Nonpayroll				
9.	GAO-20-480R, #20-03	<p>Establish and implement actions to provide reasonable assurance that business units record the acceptance of goods and services in a timely manner in accordance with IRS policies and procedures.</p> <p>Actions taken:</p> <p>In fiscal year 2021, IRS developed processes that (1) send earlier notification of invoices to receivers through system-generated emails; (2) improve invoice tracking, notifications, and management oversight related to timely R&A; (3) send executives an additional quarterly notice that addresses significant failures to perform timely recording of R&A; and (4) verify that staff have the proper system access when new commercial contracts are awarded.</p> <p>During our fiscal year 2022 audit, we found that IRS developed and implemented (1) a system-generated email for R&A notifications of new IPP invoices that have interfaced with IFS; (2) a system-generated goods acceptance report that includes all R&A entries from the prior day; (3) an additional quarterly notice to executives that addresses significant failures to perform timely recording of R&A, which will provide an opportunity to remediate the issues; and (4) processes and procedures to verify that the EU and COR have proper system access when new commercial contracts are awarded. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>	2019	Closed
Information systems				
Security management				
10.	GAO-21-401R, #21-01	<p>Reasonably assure that reviews of external third parties' systems reference current documentation that supports IRS assessments of risk.</p> <p>Actions taken:</p> <p>During our fiscal year 2022 testing, we determined that IRS referenced current documentation that supports IRS assessments of risk in its reviews of external third parties' systems. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>	2020	Closed

Enclosure II

No.	GAO source report and recommendation number	Recommendation and actions taken	Fiscal year initially identified	Status
Safeguarding assets				
11.	GAO-13-420R , #13-05	<p>Perform a risk assessment to determine the appropriate level of IDRS access that should be granted to employee groups that handle hard-copy taxpayer receipts and related sensitive taxpayer information as part of their job responsibilities.</p> <p>Actions taken:</p> <p>Four IRS organizations performed risk assessments as part of IRS's corrective actions to address this recommendation during fiscal years 2015, 2018, and 2020. During fiscal year 2022, the TAS organization completed a risk assessment and supporting analysis to determine the appropriate level of IDRS access that should be granted to employee groups that handle hard-copy taxpayer receipts and related sensitive information. During our fiscal year 2022 testing, we verified that the TAS organization completed its risk assessment. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>	2012	Closed
12.	GAO-13-420R , #13-06	<p>Based on the results of the risk assessment, update the IRM accordingly to specify the appropriate level of IDRS access that should be allowed for (1) remittance perfection technicians and (2) all other employee groups with IDRS access that handle hard-copy taxpayer receipts and related sensitive information as part of their job responsibilities.</p> <p>Actions taken:</p> <p>During fiscal year 2021, the SB/SE and TE/GE organizations updated applicable IRM sections to include policy changes on risk mitigation, including specifying the appropriate level of IDRS access allowed for employee groups that handle hard-copy taxpayer receipts and related sensitive information. During fiscal year 2022, IRS officials told us that the TAS organization will address this recommendation in the future. As a result, this recommendation remains open as of September 30, 2022.</p>	2012	Open
13.	GAO-13-420R , #13-07	<p>Establish procedures to implement the updated IRM, including required steps to follow to prevent (1) remittance perfection technicians and (2) all other employee groups that handle hard-copy taxpayer receipts and related sensitive information as part of their job responsibilities from gaining access to command codes not required as part of their designated job duties.</p> <p>Actions taken:</p> <p>During fiscal year 2021, the SB/SE and TE/GE organizations established procedures in the applicable IRM sections to prevent employee groups that handle hard-copy taxpayer receipts and related sensitive information from gaining access to command codes not required as part of their designated job duties. During fiscal year 2022, IRS officials told us that the TAS organization will address this recommendation in the future. As a result, this recommendation remains open as of September 30, 2022.</p>	2012	Open
14.	GAO-15-480R , #15-07	<p>Establish procedures to monitor whether non-IRS contractors with unescorted physical access to IRS facilities are receiving unauthorized access awareness training.</p>	2014	Open

Enclosure II

No.	GAO source report and recommendation number	Recommendation and actions taken	Fiscal year initially identified	Status
		<p>Actions taken:</p> <p>During fiscal year 2021, IRS developed an SOP to establish policies and procedures for monitoring and enforcing training requirements that allow contractors to maintain unescorted access to IRS facilities. During fiscal year 2022, IRS officials told us that they will address this recommendation in the future. As a result, this recommendation remains open as of September 30, 2022.</p>		
15.	GAO-18-393R, #18-03	<p>Develop and implement policies in the IRM for conducting and monitoring the Submission Processing internal control review. These policies should include or be accompanied by procedures to (1) assess and update the review questions and cited IRM criteria to reasonably assure they align with the controls under review; (2) periodically evaluate and document a review of the error threshold methodology to assess its current validity based on changes to the operating environment; (3) report findings identified in the Findings and Corrective Actions Report; and (4) assess and monitor (a) safeguarding of internal control activities across all work shifts, particularly during peak seasons, (b) safeguarding of internal control activities for the appropriate use and destruction of hard-copy taxpayer information, and (c) the results of relevant functional level reviews.</p> <p>Actions taken:</p> <p>In fiscal years 2019 and 2020, IRS established policies and procedures in the IRM for conducting and monitoring the Submission Processing internal control review. During our fiscal year 2022, we reviewed the March and April Submission Processing internal control reviews. We found no exceptions to IRS's implementation of the policies and procedures for conducting and monitoring these reviews. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>	2017	Closed
16.	GAO-18-393R, #18-05	<p>Develop and implement policies in the IRM for conducting and monitoring the AEHR review. These policies should include or be accompanied by procedures for IRS management responsible for establishing policies related to safeguarding controls to (1) periodically monitor the results of the review and (2) reasonably assure that corrective actions for all identified deficiencies are tracked until fully implemented.</p> <p>Actions taken:</p> <p>During fiscal year 2019, IRS added procedures to the IRM for conducting the AEHR reviews, including developing and monitoring corrective actions for deficiencies until fully implemented. During fiscal year 2021, IRS updated policies in the IRM and related procedures for completing the AEHR reviews within IRS's new automated tool (Security+).</p> <p>During fiscal year 2022, IRS provided guidance to its managers via email to clarify the AEHR review certification process. During our fiscal year 2022, we reviewed the April and May AEHR reviews. We found no exceptions to IRS's implementation of the policies and procedures for conducting and monitoring the AEHR review. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>	2017	Closed

Enclosure II

No.	GAO source report and recommendation number	Recommendation and actions taken	Fiscal year initially identified	Status
17.	GAO-19-412R, #19-04	<p>Establish and implement policies and procedures requiring that corrective actions be documented in the Alarm Maintenance and Testing Certification Report for malfunctioning alarms identified in the annual alarm tests.</p> <p>Actions taken:</p> <p>During fiscal year 2021, IRS updated policies in the IRM and related procedures for completing the ACR (formerly Alarm Maintenance and Testing Certification Report) within IRS's new automated tool. During our fiscal year 2022 review of ACRs, we found no exceptions to IRS's implementation of the updated policies and procedures for completing the ACR. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>	2018	Closed
18.	GAO-19-412R, #19-06	<p>Update and implement policies or procedures, or both, to clarify (1) who is responsible for conducting the annual review of the visitor access logs, (2) the date by which the review is to be conducted, and (3) how the review should be documented.</p> <p>Actions taken:</p> <p>During fiscal year 2022, IRS revised its procedures further to better clarify (1) who is responsible for conducting the annual review of the visitor access logs, (2) the date by which the reviews are to be conducted, and (3) how the review should be documented. During our fiscal year 2022, we reviewed the April and May Computer Room Visitor Access Logs. We found no exceptions to IRS's implementation of these updated procedures. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>	2018	Closed
19.	GAO-19-412R, #19-07	<p>(1) Identify the reason IRS's policies and procedures related to the transmittal forms were not always followed and (2) design and implement actions to provide reasonable assurance that SB/SE units comply with these policies and procedures.</p> <p>Actions taken:</p> <p>In October 2019, the SB/SE Field Collection organization determined that the reasons the policies and procedures related to the transmittal forms were not always followed were either a lack of understanding of the requirements or a lack of consistency in adhering to them. In response, the SB/SE Field Collection organization distributed a memorandum to its area directors, territory managers, and group managers. The memorandum reminded them of the required remittance processing procedures, emphasized the importance of following the procedures, and requested that they further distribute the information in the memorandum within their organizations. IRS officials stated that the memorandum will help assure that SB/SE Field Collection units comply with the policies and procedures related to the transmittal forms.</p>	2018	Closed

Enclosure II

No.	GAO source report and recommendation number	Recommendation and actions taken	Fiscal year initially identified	Status
		<p>In addition, in July 2020, the SB/SE Examination organization updated the IRM to clarify and supplement the service-wide guidance for the appropriate control, monitoring, and review of the transmittal forms. During our fiscal year 2022 testing of SB/SE remittance processing procedures, we found no exceptions to IRS's implementation of the updated policies related to transmittal forms. As a result, we concluded that IRS's corrective actions as of September 30, 2022, were adequate to close this recommendation.</p>		

Legend:

ACR: Annual Maintenance and Testing Certification Report
 AEHR: All Events History Report
 COR: contracting officer representative
 EU: end user
 FMSS: Facilities Management and Security Services
 IAT: Integrated Automation Technologies
 ICO: Input Correction Operation
 IDRS: Integrated Data Retrieval System
 IFS: Integrated Financial System
 IPP: Invoice Processing Platform
 IRM: *Internal Revenue Manual*
 IRS: Internal Revenue Service
 ISRP: Integrated Submission and Remittance Processing
 IT: information technology
 KISAM: Knowledge Incident/Problem Service Asset Management
 P&E: property and equipment
 R&A: receipt and acceptance
 RSN: refund schedule number
 SB/SE: Small Business/Self-Employed
 SOP: standard operating procedure
 SPC: Submission Processing Center
 TAS: Taxpayer Advocate Service
 TE/GE: Tax Exempt & Government Entities
 USR: unit security representative

Source: GAO. | GAO-23-106401

Enclosure III

Comments from the Internal Revenue Service



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

April 28, 2023

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

Dear Ms. Simpson:

I am writing in response to the Government Accountability Office (GAO) draft report titled, Management Report: Improvements Needed in IRS's Financial Reporting and Information System Controls (GAO-23-106401).

We are pleased that GAO agreed to close 28 recommendations from prior years' reports, and we appreciate GAO recognizing our efforts to improve our financial reporting and information system controls. I acknowledge the new recommendations contained in this report, and we look forward to working with GAO to resolve them.

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

Sincerely,

Daniel I. Werfel
Digitally signed by
Daniel I. Werfel
Date: 2023.04.28
16:10:20 -04'00'

Daniel I. Werfel

Enclosure

Enclosure

**IRS Response to “Management Report: Improvements Needed in IRS’s Financial Reporting and Information System Controls”
GAO-23-106401**

Recommendation #1: The Commissioner of the Internal Revenue Service should establish a process to provide reasonable assurance that the System Control Processing and Validation Section certifying officers comply with the requirement to complete the Fiscal Service Certifying Officer Training within 30 days prior to the renewal of their designations. (Recommendation 23-01)

Comments: The IRS agrees with this recommendation.

- The IT Enterprise Operations organization will establish a process to provide reasonable assurance that the SCPVS COs comply with the requirement to complete the Fiscal Service Certifying Officer Training within 30 days prior to the renewal of their designations.

Due Date: October 15, 2023

Recommendation #2: The Commissioner of the Internal Revenue Service should review and update their process to provide reasonable assurance that tax examiners comply with the requirement to address and correct error codes 004 and 230. (Recommendation 23-02)

Comments: The IRS agrees with this recommendation.

- In May 2022, the IRS issued Servicewide Electronic Research Program Alert 22A0127, reminding Error Resolution System Tax Examiners to correct all coding and transcription errors in displayed record fields. The Alert included reminders specifically addressing Error Codes 004 and 230. Therefore, the IRS considers this corrective action implemented.

Recommendation #3: The Commissioner of the Internal Revenue Service should direct the appropriate officials to establish and implement actions to provide reasonable assurance that requests for information are provided in a timely manner as required. (Recommendation 23-03)

Comments: The IRS agrees with this recommendation.

- The IRS will shift additional staffing to the Files Unit to resolve the COVID caused backlog of unsorted documents and return the function to normal processing operations.

Due Date: December 15, 2024

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