

## Why GAO Did This Study

In its role as the nation's tax collector, the Internal Revenue Service (IRS) has a demanding responsibility to annually collect trillions of dollars in taxes, process hundreds of millions of tax and information returns, and enforce the nation's tax laws. Since its first audit of IRS's financial statements in fiscal year 1992, GAO has identified a number of weaknesses in IRS's financial management operations. In related reports, GAO has recommended corrective actions to address those weaknesses.

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

## What GAO Recommends

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

View [GAO-11-536](#) or key components. For more information, contact Steven J. Sebastian at (202) 512-3406 or [sebastians@gao.gov](mailto:sebastians@gao.gov).

# INTERNAL REVENUE SERVICE

## Status of GAO Financial Audit and Related Financial Management Report Recommendations

## What GAO Found

IRS has made progress in improving its internal controls and financial management since its first financial statement audit in 1992, as evidenced by 11 consecutive years of clean audit opinions on its financial statements, the resolution of several material internal control weaknesses, and actions resulting in the closure of nearly 300 financial management recommendations. This progress has been the result of hard work throughout IRS and sustained commitment at the top levels of the agency. However, IRS still faces significant financial management challenges in (1) resolving its remaining material weaknesses and significant deficiency in internal control, (2) developing outcome-oriented performance metrics, and (3) correcting numerous other internal control issues, especially those relating to safeguarding tax receipts and taxpayer information. At the beginning of GAO's audit of IRS's fiscal year 2010 financial statements, 85 financial management-related recommendations from prior audits remained open because IRS had not fully addressed the underlying issues. During the fiscal year 2010 financial audit, IRS took actions that GAO considered sufficient to close 37 recommendations. At the same time, GAO identified additional internal control issues resulting in 29 new recommendations. In total, 77 recommendations remain open.

To assist IRS in evaluating and improving internal controls, GAO categorized the 77 open recommendations by various internal control activities, which, in turn, were grouped into three broad control categories

### Summary of Open Recommendations by Control Category

	Open at the beginning of 2010	Closed during 2010 audit	New from 2010 audit	Total remaining open
Safeguarding of assets and security activities	19	4	14	29
Proper recording and documenting of transactions	39	18	9	30
Effective management review and oversight	27	15	6	18
<b>Total</b>	<b>85</b>	<b>37</b>	<b>29</b>	<b>77</b>

Source: GAO.

The continued existence of internal control weaknesses that gave rise to these recommendations represents a serious obstacle for IRS. Effective implementation of GAO's recommendations can greatly assist IRS in improving its internal controls and achieving sound financial management, which are integral to effectively carrying out its tax administration responsibilities. Most recommendations can be addressed within the next year or two. However, a few recommendations, particularly those concerning the functionality of IRS's automated systems, are complex and will require several more years to effectively address.