



Highlights of [GAO-03-665](#), a report to the Commissioner of Internal Revenue

## Why GAO Did This Study

In its role as the nation's tax collector, the Internal Revenue Service (IRS) has a demanding responsibility in collecting taxes, processing tax returns, and enforcing the nation's tax laws. Since GAO's first audit of IRS's financial statements in fiscal year 1992, a number of weaknesses in IRS's financial management operations have been identified. In related reports, GAO has recommended corrective action to address those weaknesses.

Each year as part of the annual audit of IRS's financial statements, GAO not only makes recommendations to address any new weaknesses identified but also follows up on the open weaknesses GAO identified in previous years' audits. The purpose of this report is to assist IRS management in tracking the status of audit recommendations and actions needed to address them.

## What GAO Recommends

GAO did not make any new recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-03-665](http://www.gao.gov/cgi-bin/getrpt?GAO-03-665).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Steven J. Sebastian at (202) 512-3406, [sebastians@gao.gov](mailto:sebastians@gao.gov).

# INTERNAL REVENUE SERVICE

## Status of Recommendations from Financial Audits and Related Financial Management Reports

### What GAO Found

Many of GAO's open audit recommendations to IRS were made during the past 6 months; others, however, have been outstanding for an extended period of time. The continued existence of these problems exposes IRS to loss due to errors or theft and impairs the reliability and availability of current, accurate financial information that management needs to make decisions on a day-to-day basis.

Of 98 recommendations related to financial management (consisting of 62 recommendations open as of July 2002, 27 recommendations included in GAO's January 2003 report on management and oversight at lockbox banks, and 9 new recommendations included in GAO's management report for fiscal year 2002), GAO is closing 20 because of actions IRS has taken to address the issues that gave rise to them. These actions were verified by GAO in the course of conducting the audit of IRS's fiscal year 2002 financial statements.

Of the remaining 78 financial management recommendations GAO considers open as of the date of this report, 73 are short term (capable of being addressed within 2 years) and 5 are long term (expected to require more than 2 years to implement). IRS considers 34 (44 percent) of the 78 recommendations to be closed. For 26 of these 34, including 15 related to GAO's recent report on lockbox banks, GAO considers them still open because it has not yet had an opportunity to verify the actions taken by IRS. The actions cited by IRS are recent and were taken after GAO's financial statement audit work for the year was completed. For 8 of the 34 recommendations that IRS considers closed, GAO found that action taken by IRS has not yet been fully effective in addressing the condition that gave rise to the recommendation. IRS disagrees with the remaining recommendation.

IRS continues to exhibit a 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. At the same time, the continued existence of the serious financial management weaknesses that gave rise to the remaining open recommendations represents a serious obstacle that IRS needs to overcome to achieve effective financial management.

GAO will continue to monitor IRS's progress in implementing the 78 recommendations that remain open as of the date of this report. IRS expects GAO to find in its fiscal year 2003 financial audit that IRS has taken corrective actions to allow closure of another 34 recommendations. In addition, IRS has stated that it is actively working to implement corrective actions to address all remaining open recommendations.