U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

Comptroller General
of the United States

April 23, 2020

The Honorable Charles P. Rettig
Commissioner
Internal Revenue Service

Priority Open Recommendations: Internal Revenue Service

Dear Mr. Rettig:

The purpose of this letter is to provide you with the overall status of the Internal Revenue Service's (IRS) implementation of our recommendations and to call your personal attention to critical open recommendations that we believe should be given high priority.[1]

In November 2019, we reported that on a government-wide basis, 77 percent of our recommendations made 4 years ago were implemented.[2] IRS's recommendation implementation rate was 83 percent. As of April 2020, IRS had 244 open recommendations. As operations return to normal from the COVID-19 (coronavirus) pandemic, fully implementing these open recommendations could significantly improve IRS's operations.

IRS has made progress implementing a number of priority recommendations. Since our April 2019 letter, IRS has implemented six of our 23 open priority recommendations. Specifically, IRS has:

- increased the frequency with which incoming W-2 information is made available for pre refund verification to expand the agency's efforts to systematically verify wage information reported on tax returns and avoid issuing invalid refunds;
- assessed the additional benefits that the digitization of paper returns can have on the Return Review Program's (RRP) enhanced enforcement capabilities;
- estimated the resources required for the foundational initiatives and supporting activities in its *Identity Assurance Strategy and Roadmap;*
- established a process to provide the Centers for Medicare & Medicaid Services with information to verify taxpayers' compliance with applicable tax filing requirements and to notify nonfilers of the tax filing requirement to receive an advance Premium Tax Credit to help cover the premiums for their health insurance purchased through the Health Insurance Marketplace;[3] and

[1]Priority recommendations are those that we believe warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operation, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

[2]GAO, *Performance and Accountability Report: Fiscal Year 2019*, GAO-20-1SP (Washington, D.C.: Nov. 19, 2019).

[3]To help pay the cost of insurance premiums for taxpayers and their dependents, the Patient Protection and Affordable Care Act provides a premium tax credit (PTC) to individuals who meet certain income and other

- made meaningful progress in improving its online services strategy to address two priority recommendations. Specifically, IRS published the *IRS Integrated Modernization Business Plan* that includes a goal to modernize the taxpayer experience by delivering notices electronically, modernizing online installment agreements, and establishing multiple communication methods.

IRS has 17 priority recommendations remaining from those we identified in our 2019 letter. We ask your continued attention to these remaining recommendations. In this letter we are elevating seven new recommendations to our priority list. These recommendations are related to reducing tax fraud, improving information security, enhancing strategic human capital management, and safeguarding sensitive assets and records. This brings the total number of priority recommendations to 24 (see enclosure for the list of these recommendations).

The 24 priority recommendations fall into the following eight areas.

1. Improve payment integrity. The two recommendations in this area would improve payment integrity at IRS. In July 2017, we made two recommendations to help IRS more effectively detect and prevent improper payments by publishing valid improper payment estimates related to the Premium Tax Credit (PTC) in the Department of the Treasury's (Treasury) agency financial reports.

One recommendation aims for IRS to assess the PTC program to determine whether it is susceptible to significant improper payments.[4] IRS partially agreed with this recommendation and noted in December 2019 that while improper payment estimates were developed, they cannot be published because IRS needs additional years of data before it can develop a statistically valid estimate to assess the program's susceptibility to improper payments.[5] Until IRS completes this assessment, Congress and other external stakeholders will continue to lack key payment integrity information for monitoring improper payments.

We also recommended that IRS design and implement formal policies and procedures to identify individuals inappropriately receiving PTC because of their eligibility for or enrollment in health care programs outside of the marketplaces. IRS agreed with this recommendation and plans to analyze the magnitude of the noncompliance related to duplicate health insurance coverage. Based on this analysis, IRS will determine whether to update the Internal Revenue Manual. Until such policies and procedures are in place, IRS is vulnerable to improperly providing PTC to ineligible recipients.

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requirements. 26 U.S.C. § 36B. Individuals can have the federal government pay PTC to their issuers in advance on their behalf, known as advance PTC, which lowers their monthly premium payments and is based on estimates of household income.

[4]This program should be assessed in accordance with federal statute and Office of Management and Budget (OMB) guidance. *See* Improper Payments Information Act of 2002, Pub. L. No. 107-300, 116 Stat. 2350 (2002), *as amended by* the Improper Payments Elimination and Recovery Act of 2010, Pub. L. No. 111-204, 124 Stat. 2224 (2010), and the Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248, 126 Stat. 2390 (2013), *and codified as amended at* 31 U.S.C. § 3321 note.

[5]OMB guidance directs IRS to develop a statistically valid estimate of improper payments. See OMB, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, M-18-20 (Washington, D.C.: June 26, 2018). IRS did not provide a timeframe for when it expects to have sufficient data to be able to do so. We did not evaluate the reasonableness of IRS's methodology or approach for determining the timeframe necessary for producing valid improper payment estimates.

2. Reduce tax fraud. Seven recommendations in this area would help IRS better defend itself and taxpayers against tax refund fraud and other noncompliance. In June 2018, we made three recommendations, all of which IRS agreed with, to improve its ability to authenticate taxpayers' identity. To implement these recommendations, IRS needs to prioritize its taxpayer authentication initiatives and develop a plan to fully implement National Institute on Standards and Technology guidance for online authentication.[6] IRS's timely attention to these actions will better position the agency to respond to known and unknown threats to the tax system.

In July 2018, we made two recommendations that could improve IRS's tax administration and enforcement activities by leveraging its key fraud detection program, RRP. We recommended that IRS implement a method to digitize information provided by taxpayers who file returns on paper. This could improve RRP's detection and selection of suspicious returns, reduce processing time, and provide support for other enforcement activities.

We also recommended that IRS analyze the costs and benefits of expanding RRP to support other enforcement activities, such as audit selection and underreporting. IRS agreed with these recommendations and is taking steps to implement them. Fully addressing these recommendations would help reduce processing time, support enforcement activities, and promote voluntary compliance with tax laws, among other things.

In January 2020, we made two recommendations to help IRS better prevent business identity theft refund fraud (business IDT). We recommended that IRS designate a dedicated entity to manage its business IDT efforts and develop a fraud risk profile for business IDT. Doing so will help IRS identify the inherent fraud risks of business IDT, assess the likelihood and impact of inherent fraud risks, determine fraud risk tolerance, and examine the suitability of existing fraud controls. IRS agreed, but did not provide details on the actions it plans to take to address these recommendations. Fully implementing them would help IRS better combat the evolving threat of business IDT.

3. Improve resource investment decision-making and oversight. One recommendation would improve IRS's resource investment decision-making, which could potentially increase enforcement revenue by $1 billion.[7] In December 2012, we recommended that IRS calculate marginal return on investment estimates for enforcement program and taxpayer category. IRS agreed and is allocating exam workloads using a model based on marginal revenue. This model does not yet include marginal costs but IRS plans to do so in 2020. Continued development of this model may improve resource allocation and enforcement revenue.

4. Improve information security. Three recommendations would improve IRS's controls over information security. In March 2015, we made two recommendations for IRS to more effectively implement key elements of its information security program and resolve financial and taxpayer systems' security control weaknesses. IRS agreed with both recommendations.

While IRS has made progress to address these weaknesses, it still needs to ensure that the control testing methodology and results meet the objectives being tested. In addition, while IRS has made significant progress in improving its remediation process to implement corrective

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[6]National Institute of Standards and Technology, *Electronic Authentication Guideline, Special Publication 800-63-2* (August 2013), superseded by *Digital Identity Guidelines, Special Publication 800-63-3* (June 2017).

[7]This estimate is based on a hypothetical shift of a share of resources from exams of tax returns in less productive groups to more productive groups.

actions for previously identified weaknesses, IRS's actions have not fully addressed the weaknesses and we do not consider them fully implemented. Continued efforts to address these recommendations remain important, as demonstrated by the ongoing vulnerabilities we have identified in IRS's information security in our annual audit of IRS's financial statements.

In May 2019, we recommended that IRS develop a governance structure or steering committee to coordinate all aspects of IRS's efforts to protect taxpayer information while at third-party providers. While IRS agreed with the intent of the recommendation, it did not agree to implement it, citing the need for explicit authority to establish security requirements for the information systems of paid preparers and others who electronically file tax returns.
We continue to believe that IRS could implement this recommendation without additional statutory authority. Without this structure, it is unclear how IRS will adapt to changing security threats in the future and ensure those threats are mitigated.

5. Improve audit effectiveness. Six recommendations in this area would improve some of IRS's key audit activities. We made two recommendations in September 2014 that could help determine and improve the effectiveness of audits of business partnerships (including for large partnerships). To fully implement these recommendations, IRS needs to improve how it defines large partnerships and to analyze the results of its audits. IRS agreed with these actions and officials said that they have started efforts to re-examine how they select partnership returns for audit. IRS does not plan to complete its efforts on these actions until at least fiscal year 2021. Taking these actions will allow IRS to better plan and use resources when auditing large partnerships.

We made three recommendations in June 2014 directing IRS to develop clear objectives for the correspondence audit program, ensure that program measures reflect the objectives, and link measures with IRS-wide compliance goals. IRS agreed and has developed draft objectives, measures, and linkages to strategic goals. IRS needs to finalize its objectives and clarify the linkages between the measures and the objectives and strategic goals so that it can assess program performance.

We also made a recommendation in February 2016 to consolidate aspects of IRS's referral programs' submission and review processes to increase coordination across overlapping programs. IRS generally agreed and continues to consider funding for an online system to consolidate referral intake. Without continued progress on efforts to consolidate referral intake, IRS faces continued inefficiencies in receiving and processing referrals. It also risks potential public confusion caused by trying to choose among multiple forms.

6. Improve taxpayer services. Two recommendations focus on IRS developing strategies that could significantly improve taxpayer service. In December 2012, we recommended IRS develop a strategy to improve telephone and correspondence services. IRS neither agreed nor disagreed but has defined what an appropriate level of telephone service would be. However, it has not outlined a strategy on the appropriate levels of correspondence service and wait time nor how it will manage service based on time frames, demand, capabilities, and resources. Congress has mandated that IRS develop a comprehensive service strategy to improve customer experience by July 2020. Finalizing a long-term customer strategy will help IRS ensure that it is maximizing the benefit to taxpayers and possibly reduce costs in other areas.

In September 2018, we recommended that IRS establish time frames and monitoring procedures for the timely transfer of taxpayer appeals requests by examination compliance units to the Office of Appeals. IRS agreed and has established time frames for transferring appeal requests at four business operating divisions. Three IRS divisions have reporting procedures planned for monitoring timely appeal transfer, but one division has not provided a plan for monitoring its timeliness in transferring cases to the Office of Appeals. Without adequate monitoring in place, data show actual examination transfers are longer than the established time frames. Delays in transferring such requests can result in increased interest costs for taxpayers because interest continues to accumulate on the tax liability during the appeal process. Further, taxpayers unsure of the status of their appeals may call or write to IRS, tying up staff responding to inquiries about appeals delayed in transfer.

7. Enhance strategic human capital management. Two recommendations in this area would help position IRS to systematically identify and recruit the workforce needed for the future and develop strategies for identifying and closing skills gaps. In March 2019, we recommended that IRS 1) fully implement its workforce planning initiative and 2) develop a work plan to help identify and close skills gaps. IRS agreed with both recommendations. IRS reported that it is currently updating its policies and, by December 2020, will establish a workforce plan with an enterprise strategy and initiate related workforce analysis. Further, IRS is creating a work plan to address mission critical occupations and skills gaps by June 2020. This plan could help IRS identify and close skills gaps on a timely basis.

8. Safeguard sensitive assets and records. One recommendation would improve IRS's controls over safeguarding sensitive assets and records, which include hundreds of billions of dollars in taxpayer receipts and sensitive taxpayer information processed at its many facilities each year. In May 2019, we recommended that IRS develop and implement a formal comprehensive strategy to effectively improve nationwide coordination, consistency and accountability over key areas of physical security at all of its facilities. IRS agreed and officials stated that they have taken steps toward implementing this recommendation. However, part of the strategy, including how it will be implemented, is still a work in process. Full implementation of this recommendation would help provide reasonable assurance over IRS's physical security and its ability to safeguard taxpayer information.

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In March 2019 we issued our most recent biennial update to our high-risk program, which identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.[8] Our high-risk program has served to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical service to the public.

One of our high-risk areas, enforcement of tax laws, centers directly on IRS. Several other government-wide high-risk areas, including (1) ensuring the cybersecurity of the nation,(2) improving the management of information technology (IT) acquisitions and operations, (3) strategic human capital management, (4) managing federal real property, and (5) government-wide personnel security clearance process, also have direct implications for IRS and its operation.[9] We urge your attention to these government-wide high-risk issues as they relate to

[8]GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP (Washington, D.C.: Mar. 6, 2019).

[9]GAO-19-157SP. See pages 235-240 for Enforcement of Tax Laws, pages 178-184 for Ensuring the Cybersecurity of the Nation, pages 123-127 for Improving the Management of IT Acquisitions and Operations, pages 75-77 for

IRS. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, the Office of Management and Budget (OMB), and the leadership and staff in agencies, including IRS.

Copies of this letter are being sent to the Director of OMB, Secretary of the Treasury, and appropriate congressional committees including the Committees on Appropriations, Budget, and Homeland Security and Governmental Affairs, United States Senate; and the Committees on Appropriations, Budget, and Oversight and Reform, United States House of Representatives. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

I appreciate IRS's continued commitment to these important issues especially during this exceedingly challenging time. If you have any questions or would like to discuss any of the issues outlined in this letter, please do not hesitate to contact me or Jessica Lucas-Judy, Director, Strategic Issues, at lucasjudyj@gao.gov, (202) 512-9110 or James R. McTigue Jr., Director, Strategic Issues, at mctiguej@gao.gov, (202) 512-9110.

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this letter. Our teams will continue to coordinate with your staff on all of the 244 open recommendations. Thank you for your attention to these matters.

Sincerely yours,

J. Christopher Mihm
Managing Director, Strategic Issues

Enclosure – 1

cc: The Honorable Russell T. Vought, Acting Director, Office of Management and Budget
The Honorable Steven Mnuchin, Secretary, Department of the Treasury

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Strategic Human Capital Management, pages 78-85 for Managing Federal Real Property, and pages 170-177 for Government-wide Personnel Security Clearance Process.

Enclosure

Priority Open Recommendations to IRS

Improve Payment Integrity

Improper Payments: Improvements Needed in CMS and IRS Controls over Health Insurance Premium Tax Credit. GAO-17-467. Washington, D.C.: July 13, 2017.

Recommendation: The Internal Revenue Service (IRS) should direct the appropriate officials to assess the program against applicable Improper Payments Information Act of 2002 (IPIA)-defined thresholds and conclude on its susceptibility to significant improper payments, and revise the scope of its improper payments susceptibility assessment for the Premium Tax Credit (PTC) program to include instances in which advance PTC is greater than or equal to the amount of PTC claimed on the tax return. If the program meets the IPIA definition for being susceptible to significant improper payments based on this assessment, estimate and report improper payments associated with the PTC program consistent with IPIA requirements.

Action needed: IRS partially agreed with this recommendation. In December 2019, IRS concluded that the PTC program was susceptible to significant improper payments but needed additional years of data before it could develop a statistically valid estimate. Until a valid estimate of improper payments is reported in the Department of the Treasury's (Treasury) agency financial report, Congress and other external stakeholders will continue to lack key payment integrity information for monitoring improper payments.

Recommendation: IRS should direct the appropriate officials to assess whether IRS should require its examiners to verify health care coverage of individuals to determine eligibility for PTC. To do this, IRS should complete its evaluation of the level of noncompliance related to duplicate health insurance coverage. Based on this evaluation and if cost effective, IRS should design and implement formal policies and procedures to routinely identify individuals inappropriately receiving PTC because of their eligibility for or enrollment in health care programs outside of the marketplaces and notify such individuals of their ineligibility for PTC.

Action needed: IRS agreed with this recommendation and plans to perform analysis to determine the magnitude of noncompliance related to duplicate health insurance coverage. IRS will use this analysis to determine whether it should update its Internal Revenue Manual (IRM). As of December 2019, IRS stated that it expected to complete actions by summer 2020. Until such policies and procedures are incorporated in the IRM, IRS is vulnerable to improperly providing PTC to ineligible recipients.

High-risk area: Enforcement of Tax Laws

Director: Beryl H. Davis, Financial Management and Assurance

Contact information: davisbh@gao.gov, (202) 512-2623

Reduce Tax Fraud

Identity Theft: IRS Needs to Strengthen Taxpayer Authentication Efforts. GAO-18-418. Washington, D.C.: June 22, 2018.

Recommendation: Based on the estimates developed for the foundational initiatives and supporting activities identified in its *Identity Assurance Strategy and Roadmap*, the Commissioner of Internal Revenue should direct the Identity Assurance Office to prioritize foundational initiatives in its *Identity Assurance Strategy and Roadmap*.

Action needed: IRS agreed with this recommendation. As of January 2020, IRS had taken steps to estimate the resources required for the foundational initiatives and supporting activities in its *Identity Assurance Strategy and Roadmap*. However, IRS has not updated its *Roadmap* nor prioritized in-progress initiatives or supporting activities going forward. IRS's timely attention to these actions will better position the agency to respond to known and unknown threats to the tax system.

Recommendation: The Commissioner of Internal Revenue should direct the Identity Assurance Office and other appropriate business partners to develop a plan—including a timeline, milestone dates, and resources needed—for implementing changes to its online authentication programs consistent with new National Institute of Standards and Technology (NIST) guidance.

Recommendation: In accordance with the plan developed for implementing changes to its online authentication programs, the Commissioner of Internal Revenue should implement improvements to IRS's systems to fully implement NIST's new guidance.

Action needed: IRS agreed with these two related recommendations and has taken steps to implement the recommendations as of January 2020. Efforts include developing plans for a new authentication capability to authenticate taxpayers' identities online using external partners, consistent with NIST guidance. IRS officials told us that they plan to work with external partners to perform additional testing on its new authentication platform this year, including a usability study to understand user experience. IRS officials also stated they are determining a schedule for fully implementing these NIST-compliant taxpayer authentication capabilities. IRS's timely implementation of NIST's guidance is critical to help the agency mitigate potential security weaknesses in its existing online authentication programs.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue Jr., Strategic Issues

Contact information: mctiguej@gao.gov, (202) 512-9110

Tax Fraud and Noncompliance: IRS Could Further Leverage the Return Review Program to Strengthen Tax Enforcement. GAO-18-544. Washington, D.C.: July 24, 2018.

Recommendation: The Commissioner of Internal Revenue should implement the most cost-effective method to digitize information provided by taxpayers who file returns on paper.

Action Needed: IRS agreed with this recommendation. In December 2019, officials reported they will begin scanning and digitizing individual tax returns filed on paper in October 2021. According to IRS, addressing this recommendation would reduce processing time, use the same fraud filtering on all paper and electronic forms, and support enforcement activities, among other benefits.

Recommendation: The Commissioner of Internal Revenue should evaluate the costs and benefits of expanding the Return Review Program (RRP) to analyze individual returns not claiming refunds to support other enforcement activities.

Action needed: IRS agreed with this recommendation, noting that an agency goal is to expand the use of RRP to improve tax compliance and enforcement. In December 2019, IRS officials reported that internal IRS offices are collaborating on identifying priorities for expanding RRP usage to support other enforcement activities and improve detection and treatment of fraud and noncompliance. Completing its evaluation of opportunities to expand RRP and using this information to finalize RRP's development plan could provide IRS with the information needed to streamline the detection and treatment of fraud, as well as to promote voluntary compliance with tax laws.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue Jr., Strategic Issues

Contact information: mctiguej@gao.gov, (202) 512-9110

Identity Theft: IRS Needs to Better Assess the Risks of Refund Fraud on Business-Related Returns. GAO-20-174. Washington, D.C.: January 30, 2020.

Recommendation: The Commissioner of Internal Revenue should designate a dedicated entity to provide oversight of agency-wide efforts to detect, prevent, and resolve business identity theft (business IDT) refund fraud, consistent with leading practices. This may involve designating one business unit as a lead entity, or leveraging cooperative relationships between business units to establish a business IDT leadership team. This entity should have defined responsibilities and authority for managing fraud risk.

Action needed: IRS agreed with the recommendation and agreed to designate a dedicated entity to provide oversight of agency-wide business IDT efforts in January 2020. Officials stated that they will determine the appropriate oversight structure and scope of authority. Without designating an entity to help guide agency-wide business IDT fraud risk efforts, it is not clear which entity would provide oversight of agency-wide efforts to detect, prevent, and resolve business IDT.

Recommendation: The Commissioner of Internal Revenue should develop a fraud risk profile for business IDT that aligns with leading practices. This should include (1) identifying inherent fraud risks of business IDT, (2) assessing the likelihood and impact of inherent fraud risks, (3) determining fraud risk tolerance, and (4) examining the suitability of existing fraud controls.

Action needed: IRS agreed with the recommendation but did not provide details on its planned actions as of January 2020. Developing a fraud risk profile will help IRS determine whether additional fraud controls are needed and whether to make adjustments to existing controls.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov, (202) 512-9110

Improve Resource Investment Decision-Making and Oversight

Tax Gap: IRS Could Significantly Increase Revenues by Better Targeting Enforcement Resources. GAO-13-151. Washington, D.C.: December 5, 2012.

Recommendation: IRS should review disparities in the ratios of direct revenue yield to costs across different enforcement programs and across different groups of cases within programs and determine whether this evidence provides a basis for adjusting IRS's allocation of enforcement resources each year. As part of this review, IRS should develop estimates of the marginal direct revenue and marginal direct cost within each enforcement program and each taxpayer group.

Action needed: IRS said it agreed in principle to using ratios of direct revenue yield to costs to adjust its enforcement resource allocation and has taken some steps to implement it. IRS began to use marginal revenue estimates when allocating correspondence examination case workload across subdivisions in its Small Business/Self-Employed Division, but, as of December 2019, it has not incorporated marginal cost estimates into its model. However, IRS plans to adopt both marginal revenue and marginal cost for its spring 2020 planning cycle. By making this change, IRS may be able to better focus its enforcement efforts and collect additional revenue.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue Jr., Strategic Issues

Contact information: mctiguej@gao.gov, (202) 512-9110

Improve Information Security

Information Security: IRS Needs to Continue Improving Controls over Financial and Taxpayer Data. GAO-15-337. Washington, D.C.: March 19, 2015.

Recommendation: IRS should effectively implement key elements of its information security program by ensuring that its control testing methodology and results fully meet the intent of the control objectives being tested.

Action needed: IRS agreed with this recommendation, but had not fully implemented it as of February 2020. According to IRS, it has developed a methodology to improve its control testing process and is monitoring the new methodology to ensure improvement in the agency's control testing. We will monitor the agency's progress in improving the testing process for its systems as part of our fiscal year 2020 audit of IRS's financial statements. Until IRS implements an effective controls testing methodology, the agency will have reduced assurance that security controls intended to protect its systems are effective and operating as intended.

Recommendation: IRS should effectively implement key elements of its information security program by updating its remedial action verification process to ensure actions are fully implemented.

Action needed: IRS agreed with our recommendation and took actions to improve its remedial action process for verifying the implementation of corrective actions. However, as of February

2020, IRS had not yet fully implemented the corrective actions. We will continue to monitor the agency's progress in strengthening its remedial action verification process as part of our fiscal year 2020 audit of IRS's financial statements. Without an effective remedial action verification process, IRS will continue to lack assurance that weaknesses are being corrected before closing them.

High-risk areas: Enforcement of Tax Laws, Ensuring the Cybersecurity of the Nation

Director: Vijay D'Souza, Information Technology and Cybersecurity

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Taxpayer Information: IRS Needs to Improve Oversight of Third-Party Cybersecurity Practices. GAO-19-340. Washington, D.C.: May 9, 2019.

Recommendation: The Commissioner of Internal Revenue should develop a governance structure or other form of centralized leadership, such as a steering committee, to coordinate all aspects of IRS's efforts to protect taxpayer information while at third-party providers.

Action needed: IRS agreed with the intent of this recommendation but did not agree to implement it. Officials reported in December 2019 that IRS does not have explicit authority to establish security requirements for the information systems of paid preparers and others who electronically file returns. In addition, IRS stated that implementing the recommendation would be inefficient, ineffective, and costly. However, we continue to believe that IRS could improve coordination without additional statutory authority and choose a leadership mechanism it determines to be low cost and efficient. Without this structure, it is unclear how IRS will adapt to changing security threats and ensure those future threats are mitigated.

High-risk area: Enforcement of Tax Laws, Ensuring the Cybersecurity of the Nation

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov, (202) 512-9110

Improve Audit Effectiveness

Large Partnerships: With Growing Number of Partnerships, IRS Needs to Improve Audit Efficiency. GAO-14-732. Washington, D.C.: September 18, 2014.

Recommendation: The Commissioner of Internal Revenue should track the results of large partnerships audits: (1) define a large partnership based on asset size and number of partners; (2) revise the activity codes to align with the large partnership definition; and (3) separately account for field audits and campus audits.

Action needed: IRS agreed with our recommendation and defined large partnerships as having $10 million or more in assets, the same as large corporations. However, this definition is limited compared to large corporations. Specifically, IRS has eight asset categories for tracking large corporations but only one for large partnerships. As of January 2020, IRS had not created more than one category. However, it has revised its activity codes to create a category and created a reporting and monitoring structure for its new definition to track the results from auditing large partnerships. Providing detail on audits by additional size categories of large partnerships would help IRS identify opportunities to better plan and use resources in auditing large partnerships.

Recommendation: The Commissioner of Internal Revenue should analyze the audit results by these activity codes and types of audits to identify opportunities to better plan and use IRS resources in auditing large partnerships.

Action needed: IRS agreed with our recommendation and created reports to regularly track audit results for large partnerships, such as dollar amounts, hours, and number of returns. To fully implement this recommendation, IRS needs to analyze audit results to identify opportunities to better plan and use its resources in auditing large partnerships. As of January 2020, IRS officials said they plan to use these reports on audit results to do this analysis but the outcome may not be possible with the statutory changes governing partnerships. A more detailed definition of large partnerships would improve that analysis.

For both recommendations on large partnership audits, IRS officials said they have started efforts to better select partnership returns for audit based on compliance risk. They said these efforts will delay final actions on our recommendations at least through fiscal year 2021.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue Jr., Strategic Issues

Contact information: mctiguej@gao.gov, (202) 512-9110

IRS Correspondence Audits: Better Management Could Improve Tax Compliance and Reduce Taxpayer Burden. GAO-14-479. Washington, D.C.: June 5, 2014.

Recommendations: IRS should clarify the desired results of the correspondence audit program and its linkages to IRS-wide activities by

1. establishing formal program objectives;
2. ensuring that the program measures reflect those objectives; and
3. clearly linking those measures with strategic IRS-wide goals on ensuring compliance in a cost-effective way while minimizing taxpayer burden.

Action needed: IRS agreed with these three recommendations but has not yet implemented them. As of December 2019, IRS officials had developed draft objectives, measures, and linkages to strategic goals. IRS is considering changes in response to our comments on clarifying linkages between the draft objectives and related measures and strategic goals. Until these linkages are clarified and formally adopted, IRS will not have assurance that its program measures reflect progress toward the program objectives as well as IRS's strategic goals.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue Jr., Strategic Issues

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IRS Referral Programs: Opportunities Exist to Strengthen Controls and Increase Coordination across Overlapping Programs. GAO-16-155. Washington, D.C.: February 23, 2016.

Recommendation: IRS should direct the referral programs to coordinate on a plan and timeline for developing a consolidated, online referral submission. This could better position IRS to leverage specialized expertise while exploring options to further consolidate the initial screening operations.

Action needed: IRS generally agreed with our recommendation. IRS officials reported in January 2020 that a cross-functional team had worked with IRS Online Services to develop an online application prototype. They said this team is also considering the cost-effectiveness of a commercial off-the-shelf product and will consider further consolidation of the referral programs once the online application is in place.

While IRS continues to consider funding portal development for fiscal year 2020, it needs to continue development of an online submission referral application and assess the consolidation of the referral programs. Without continued progress on efforts to consolidate referral intake, IRS faces ongoing inefficiencies in receiving and processing referrals. It also risks potential public confusion caused by trying to choose among multiple forms. We will continue to assess these efforts as they are further developed.

High-risk area: Enforcement of Tax Laws

Director: Jessica Lucas-Judy, Strategic Issues

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Improve Taxpayer Services

2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively. GAO-13-156. Washington, D.C.: December 18, 2012.

Recommendation: IRS should outline a strategy that defines appropriate levels of telephone and correspondence service and wait times and lists specific steps to manage service based on an assessment of time frames, demand, capabilities, and resources.

Action needed: IRS neither agreed nor disagreed with this recommendation. IRS has not determined appropriate levels of correspondence service and wait times nor has it incorporated these findings into its customer service strategy. Officials told us in February 2020 that, as required by the Taxpayer First Act of 2019, they are drafting a comprehensive customer service strategy to improve the taxpayer experience when interacting with IRS.[10]

IRS officials plan to complete this strategy by July 2020. However, officials said that the strategy would not define appropriate levels of service and wait times because it is challenging to meet

[10]Public Law No. 116-25.

performance targets across different types of correspondence. Until IRS releases the customer service strategy, the extent to which IRS will address our recommendation is unclear.

We maintain that IRS should develop a comprehensive strategy to enable more informed requests to Congress about the resource requirements needed to deliver specific levels of service. Finalizing a long-term comprehensive strategy will help ensure IRS is maximizing the benefit to taxpayers and possibly reduce costs in other areas.

High-risk area: Enforcement of Tax Laws

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov, (202) 512-9110

Tax Administration: Opportunities Exist to Improve Monitoring and Transparency of Appeal Resolution Timeliness. GAO-18-659. Washington, D.C.: September 21, 2018.

Recommendation: The Commissioner of Internal Revenue should establish time frames and monitoring procedures for timely transfer of taxpayer appeals requests by examination compliance units to the Office of Appeals.

Action needed: IRS agreed with this recommendation. All four IRS business operating divisions have a corrective action plan and established and documented time frames for timely appeal transfer as of February 2020. While three of them have reporting procedures planned for monitoring timely appeal transfer, one division has not provided a plan for monitoring its timeliness in transferring cases to the Office of Appeals. IRS needs to assess whether the planned monitoring actions will result in timely transfer of examination appeals.

As of February 2020, data tracking the time from taxpayer request for appeal to when it is received by the Office of Appeals indicated that the actual transfer times are longer than the established time frames. Delays in transferring such requests can result in increased interest costs for taxpayers because interest continues to accumulate on the tax liability during the appeal process. Further, taxpayers unsure of their appeal status may call or write to IRS, tying up other IRS staff to respond to inquiries about appeals delayed in transfer.

High-risk area: Enforcement of Tax Laws

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Enhance Strategic Human Capital Management

Internal Revenue Service: Strategic Human Capital Management is Needed to Address Serious Risks to IRS's Mission. GAO-19-176. Washington, D.C.: March 26, 2019.

Recommendation: The Commissioner of Internal Revenue should fully implement the workforce planning initiative, including taking the following actions: (1) conducting enterprise strategy and planning, (2) conducting workforce analysis, (3) creating a workforce plan, (4) implementing the workforce plan, and (5) monitoring and evaluating the results.

Action needed: IRS agreed with this recommendation. As of February 2020, IRS reported it has hired or made final offers to new members of its Workforce Planning branch that will help implement the workforce planning initiative. According to IRS, the agency is updating its workforce planning policy, and will establish a workforce plan including an enterprise strategy and initiate related workforce analysis by December 2020.

By December 2021, IRS expects to implement the workforce plan and a process to monitor and evaluate the results of the workforce plan. Full implementation of a workforce plan that provides a comprehensive inventory of its current workforce will allow IRS to develop competency and staffing requirements to conduct agency-wide activities associated with identifying and addressing skills gaps.

Recommendation: The Commissioner of Internal Revenue should ensure the Human Capital Officer and Deputy Commissioner for Services and Enforcement collaborate to develop a work plan or other mechanism that prioritizes and schedules skills assessments for mission critical occupations at highest risk of skills gaps, such as those identified by Treasury or where key activities have been scaled back, for the purposes of developing a strategy to close the gaps.

Action needed: IRS agreed with this recommendation. As of February 2020, IRS reported that it expects to fully implement this action by June 15, 2020. IRS reported that full implementation of related actions has been delayed due to limited resources. To date, the IRS Human Capital Officer has (1) identified mission critical occupations (MCO); (2) collaborated with the Employment, Talent and Security (ETS) Division to develop an implementation schedule for the assessments; (3) obtained the Worklife Benefits and Performance Division and ETS Division Directors' approval of the implementation schedule; and (4) published and distributed the schedule.

Going forward, the IRS Human Capital Officer will coordinate with the Chief Financial Officer and the Deputy Commissioner for Services and Enforcement in developing a work plan or other mechanism that prioritizes and schedules skills assessments for mission critical occupations. IRS will also validate its list of 22 positions established in coordination with Treasury. A work plan for addressing MCOs and skills gaps could help IRS identify and close skills gaps on a timely basis. Without such a plan, IRS risks continuing to scale back on mission-critical activities, adding to the existing fragmentation of its human capital planning efforts.

High-risk areas: Strategic Human Capital Management

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Safeguard Sensitive Assets and Records

Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting. GAO-19-412R. Washington, D.C.: May 9, 2019.

Recommendation: The Commissioner of Internal Revenue should ensure that the appropriate IRS officials document and implement a formal comprehensive strategy to provide reasonable assurance concerning its nationwide coordination, consistency, and accountability for internal control over key areas of physical security. This strategy should include nationwide improvements for (1) coordinating among the functional areas involved in physical security; (2) implementing and monitoring the effectiveness of physical security policies, procedures, and internal controls; and (3) ongoing communication in identifying, documenting, and taking corrective action to resolve underlying control issues that affect IRS's facilities.

Action needed: IRS agreed with this recommendation. In January 2020, IRS officials stated that they are developing and documenting a formal comprehensive strategy. This strategy will include different overarching goals, such as improving workforce effectiveness, ensuring appropriate monitoring functions and employee accountability, and improving coordination and communication of policies and procedures.

IRS plans to complete this document by June 2020 and finalize its implementation by March 2021. Addressing this recommendation will help provide reasonable assurance concerning IRS's nationwide coordination, consistency, and accountability for internal control over key areas of physical security. This will help ensure IRS properly safeguards taxpayer receipts and information processed at its many facilities.

High-risk area: Enforcement of Tax Laws

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