



Highlights of [GAO-08-693](#), a report to the Commissioner of Internal Revenue

INTERNAL REVENUE SERVICE

Status of GAO Financial Audit and Related Financial Management Report Recommendations

Why GAO Did This Study

In its role as the nation’s tax collector, the Internal Revenue Service (IRS) has a demanding responsibility in annually collecting trillions of dollars in taxes, processing hundreds of millions of tax and information returns, and enforcing 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 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 status of weaknesses GAO identified in previous years’ audits. The purpose of this report is to (1) assist IRS management in tracking the status of audit recommendations and actions needed to fully address them and (2) demonstrate how the recommendations relate to control activities central to IRS’s mission and goals.

What GAO Recommends

GAO is making no new recommendations in this report. In commenting on this draft report, IRS stated that it is committed to implementing appropriate improvements to maintain sound financial management practices.

To view the full product, including the scope and methodology, click on [GAO-08-693](#). For more information, contact Steven J. Sebastian at (202)512-3406 or sebastians@gao.gov.

What GAO Found

IRS has made significant progress in improving its internal controls and financial management since its first financial statement audit in 1992, as evidenced by 8 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 over 200 financial management recommendations. This progress has been the result of hard work throughout the agency and sustained commitment at the top levels of the agency. However, IRS still faces financial management challenges. At the beginning of GAO’s audit of IRS’s fiscal year 2007 financial statements, 75 financial management-related recommendations from prior audits remained open because IRS had not fully addressed the issues that gave rise to them. During the fiscal year 2007 financial audit, IRS took actions that enabled GAO to close 18 of those recommendations. At the same time, GAO identified additional internal control issues resulting in 24 new recommendations. In total, 81 recommendations remain open at the end of fiscal 2007.

To assist IRS in evaluating and improving internal controls, GAO categorized the 81 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 2007	Closed during 2007 audit	New from 2007 audit	Total open for 2008
Safeguarding of assets and security activities	19	4	6	21
Proper recording and documenting of transactions	33	9	9	33
Effective management review and oversight	23	5	9	27
Total	75	18	24	81

Source: GAO analysis of financial management recommendations made to IRS.

The continued existence of internal control weaknesses that gave rise to these recommendations represents a serious obstacle that IRS needs to overcome. Effective implementation of GAO’s recommendations can greatly assist IRS in improving its internal controls and achieving sound financial management and can help enable it to more effectively carry out its tax administration responsibilities. Most can be addressed in the short term (the next 2 years). However, a few recommendations, particularly those concerning IRS’s automated systems, are complex and will require several more years to fully and effectively address.