

**The Internal Revenue Service
Has Improved Revenue Accounting
Controls Over Deposit Discrepancies**

January 2000

Reference Number: 2000-10-027

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.




DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

January 28, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM:


Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – The Internal Revenue Service Has
Improved Revenue Accounting Controls Over Deposit
Discrepancies

This report presents the results of our review of improvements the Internal Revenue Service (IRS) has made over deposit discrepancies. The objective of the review was to evaluate the effectiveness of IRS management's corrective actions to resolve deposit discrepancies, obtain management approval for reversing erroneous accounting entries, and ensure only authorized employees had access to the accounting system.

In summary, we found the IRS has reduced the risks associated with the deposit process and has provided reasonable assurance that the IRS is effectively managing deposit discrepancies at its service centers. Personnel in the National Office appropriately issued procedures to require management approval to reverse erroneous accounting entries to the general ledger and review accounting system security reports.

In commenting on a draft of this report, IRS management stated that they appreciated the validation of their efforts to resolve deposit discrepancies, obtain management approval for reversing erroneous accounting entries, and ensure only authorized employees had access to the accounting system. These efforts, along with the implementation of the Interim Revenue Accounting Control System, have improved the accuracy and integrity of the revenue accounting operations. The full text of management's comments is included as an appendix to this report.

Copies of this report are also being sent to the IRS managers who are affected by its content. Please contact me at (202) 622-6510 if you have any questions,

or your staff may contact Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**The Internal Revenue Service Has Improved Revenue
Accounting Controls Over Deposit Discrepancies**

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The Internal Revenue Service Has Improved Revenue Accounting Controls Over Deposit Discrepancies

Executive Summary

Deposit discrepancies occur when the Internal Revenue Service (IRS) service centers' daily deposits do not reconcile with the information sent by the depository bank. We previously reported these deposit discrepancies to the IRS and it effectively implemented our recommendations for corrective action. As a result, the IRS has reduced the risks associated with the deposit process, and has provided reasonable assurance that the IRS is effectively managing deposit discrepancies at the service centers.

This audit is a follow-up to our prior report, *Review of Revenue Accounting Controls Over Deposit Discrepancies* (Reference Number 081705, dated January 9, 1998). Our primary objective was to evaluate the effectiveness of IRS management's corrective actions to resolve deposit discrepancies, obtain management approval for reversing erroneous accounting entries, and ensure only authorized employees had access to the accounting system.

Results

The IRS has effectively established and implemented procedures to timely resolve deposit discrepancies at the IRS' service centers. National Office personnel appropriately issued, and field offices implemented, procedures to require management approval for reversing erroneous accounting entries to the general ledger and managerial review of the accounting system security reports to verify only authorized employees had access to the system. In addition, management continues to emphasize the verification of unconfirmed deposit tickets.

Internal Revenue Service Guidelines Were Adequately Revised

Internal Revenue Manual and Program Evaluation changes were issued to timely resolve deposit discrepancies, as well as requiring management review and approval of general ledger reversing entries and employee access to the accounting system.

Service Center Personnel Timely Reviewed Daily and Monthly Reports to Resolve Deposit Discrepancies

Our review of 300 discrepancies totaling \$77.7 million showed that 275 had been reviewed timely. Of the 25 that were over 9 days old, 5 included required documentation for actions taken. The 20 discrepancies totaling \$3.9 million without adequate documentation were in 1 Service Center. These omissions occurred because the required procedures were not effectively communicated to service center employees. Service

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Center Accounting management took immediate corrective action after we notified them of the problem. In addition, service center employees followed up to ensure the receipt of all 61 deposits, totaling \$56.1 million, in which a confirmation had not been timely received.

Service Center Management Properly Approved Reversing Entries to the General Ledger and Effectively Conducted Reviews of Accounting System Security Reports

Service Center management properly approved and documented the 98 reversing entries totaling \$401 million that were made during the period September through November 1998. Service Center management also reviewed the accounting system security reports to ensure only authorized persons could access the system and there were no improper accesses.

Management's Response: IRS management said that they appreciated the validation of their efforts to resolve deposit discrepancies, obtain management approval for reversing erroneous accounting entries, and ensure only authorized employees had access to the accounting system. These efforts, along with the implementation of the Interim Revenue Accounting Control System, have improved the accuracy and integrity of the revenue accounting operations.

The Internal Revenue Service Has Improved Revenue Accounting Controls Over Deposit Discrepancies

Objective and Scope

Our objective was to evaluate the effectiveness of corrective actions to resolve deposit discrepancies, obtain management approval for reversing erroneous accounting entries, and restrict employee access to the accounting system.

Our primary objective was to evaluate the effectiveness of the Internal Revenue Service (IRS) management's corrective actions to resolve deposit discrepancies, obtain management approval for reversing erroneous accounting entries, and ensure only authorized employees had access to the accounting system. This follow-up audit was conducted at the Andover, Kansas City, Memphis, and Ogden Service Centers from September 1998 through January 1999 in accordance with *Government Auditing Standards*.

To accomplish our objective, we evaluated changes to written guidelines and procedures; interviewed service center personnel and identified procedures being followed to resolve discrepancies between the IRS and the Department of the Treasury's Financial Management Service's (FMS) records; analyzed deposits listed on the daily and monthly reports to determine if deposit discrepancies were timely reviewed; and analyzed manual deposits to determine if depository banks were contacted after 14 days to obtain a confirmed copy of the deposit ticket.

We also determined if Service Center Accounting management documented and approved the reversal of erroneous accounting entries to the general ledger, and reviewed accounting system reports to identify any employees either having unauthorized access to the accounting system or making improper accesses.

Appendix I contains the detailed objective, scope, and methodology for our review. Appendix II contains a listing of major contributors to this report.

The Internal Revenue Service Has Improved Revenue Accounting Controls Over Deposit Discrepancies

Background

Service centers are responsible for reconciling IRS deposits of taxpayer payments to actual deposits received and recorded at Federal Reserve Banks. The Accounting Branch personnel record information from IRS deposit tickets to the revenue accounting system at each service center. The deposits journalized in the IRS' accounting system are transmitted to the FMS, and those recorded by the banks are sent to the FMS through a computer system that reports federal agency deposits.

The FMS compares deposit information received from the IRS and the Federal Reserve Banks, and forwards daily discrepancy reports to the service centers. These reports identify deposit mismatches involving dates, transaction numbers, or dollar amounts, and provide for early detection of deposits that may have been lost or possibly stolen in transit. The FMS also generates monthly discrepancy reports and Department of the Treasury Statement of Difference reports.

The FMS sends a separate letter alerting the service center director if a monthly Statement of Difference net balance remains at \$100,000 or more for five months, or \$1 million or more for three months. These reports monitor the unresolved monthly discrepancies between the IRS and the Department of the Treasury, and show the aggregate dollar amounts requiring resolution. For example, in October 1998, the average Statement of Difference amount for the four service centers visited during our review was \$10.9 million.

This audit is a follow-up to our prior report, *Review of Revenue Accounting Controls Over Deposit Discrepancies* (Reference Number 081705, dated January 9, 1998). Appendix IV contains management's corrective actions in response to the following recommendations made in that report:

- The IRS should clarify the Internal Revenue Manual (IRM) to specifically define timeliness criteria for reconciling and reviewing daily and monthly

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discrepancy reports, and ensure deposit discrepancy files contain documentation of employees' resolution actions.

- The IRS should modify the IRM to require documentation of managerial approval for reversing erroneous accounting entries to the general ledger.
- The IRS should ensure that periodic review of the accounting system authorized user list is performed to validate system access for the individuals listed.
- The IRS should reemphasize the importance of meeting the written requirement of manually matching the depository bank confirmation copies with the copies of the IRS deposit tickets.

Results

The IRS has effectively established and implemented procedures to timely resolve deposit discrepancies.

The IRS has effectively established and implemented procedures to timely resolve deposit discrepancies at IRS service centers. National Office personnel have appropriately issued procedures to require management approval to reverse erroneous accounting entries to the general ledger, managerial review of accounting system security reports, and continued management emphasis on verifying deposit tickets.

Internal Revenue Service Guidelines Were Adequately Revised

The National Office issued changes to the IRM and PE review requirements.

The National Office issued IRM and Systems Production Evaluation (PE) Report¹ changes to timely resolve deposit discrepancies, as well as requiring management review and approval to reverse erroneous accounting entries on the general ledger and employee access to the accounting system. The changes to written guidelines required:

¹ An immediate change to IRM instructions that corrects an identified problem.

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- Weekly review of daily reports to resolve all deposit discrepancies more than nine calendar days old. Managers are also required to conduct monthly reviews of the reports to ensure timely resolution.
- Monthly review of reports and history sheets documenting the actions taken to resolve the discrepancies.
- Managerial approval and documentation of the general ledger reversing entries.
- Managerial review of the accounting system authorized access list and the violation reports.

Service Center Personnel Timely Reviewed Daily and Monthly Reports to Resolve Deposit Discrepancies

Service Center employees timely reviewed daily and monthly reports to resolve deposit discrepancies.

IRS written procedures require Service Center Accounting personnel to review the discrepancy reports weekly. Service Center Accounting personnel are required to begin follow-up actions on all deposits that have not been confirmed within nine calendar days of the deposit's prepared date. Initial follow-up is to be documented on the discrepancy report. All follow-up actions taken for deposits that are still unconfirmed five calendar days after the initial follow-up action must be documented on a history sheet.

Our review of 300 discrepancies, totaling \$77.7 million and listed on daily discrepancy reports, showed that 275 had been reviewed timely. Twenty-five of the 300 were over 9 days old, with 5 showing required documentation for actions taken and 20 showing no documentation.

The 20 undocumented discrepancies totaling \$3.9 million were isolated in 1 Service Center where required procedures had not been communicated to employees. After we informed the Service Center Director of the problem, she issued desk procedures to employees responsible for the reports. The Service Center Accounting unit manager was also directed to follow up monthly to ensure timely review.

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Deposit discrepancy reports were reviewed timely

Federal Reserve Banks initiate and record debit vouchers to offset an IRS deposit if a deposit shortage occurs. The bank transmits the debit voucher information through a computer system to the FMS and sends a copy to the service center to journalize on the accounting system. The FMS also compares debit voucher information between the bank and the IRS accounting system. All deposit and debit voucher differences are listed on monthly reports.

IRS procedures require Interim Revenue Accounting Control System (IRACS) managers to conduct monthly follow-ups on items listed on the CASHLINK reports. (CASHLINK is a FMS system that downloads deposit record data daily to the IRACS.) Follow-up is to be documented on comprehensive history sheets. All report items are to be reconciled within six months. Our review of 56 discrepancies, totaling \$38 million from recent monthly reports, showed that all had been reviewed timely.

Service Center personnel timely initiated action to validate unconfirmed deposit tickets

The IRS is required to obtain a paper-confirmed copy of each deposit ticket from the Federal Reserve Bank and match it to the memorandum copy of the ticket. Deposits that do not have both a memorandum copy and a paper-confirmed copy of the deposit ticket are considered unconfirmed. Accounting procedures require follow-up on all deposits that do not have a paper confirmation within two weeks of the deposit date.

We determined that of 223 unconfirmed deposit tickets (memorandum copy only), 61 totaling \$56.1 million were more than 14 days old. However, the Service Center employees had taken action to confirm, through the depository institution or the computer system, that the Department of the Treasury had received the 61 unconfirmed deposits.

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Service Center Management Properly Approved Reversing Entries to the General Ledger and Effectively Conducted Reviews of Accounting System Security Reports

Service Center management properly approved reversing entries to the general ledger.

When a transaction is posted to the general ledger in error, the entry must be reversed before the correct entry can be made. These entries are commonly referred to as reversing entries. IRS guidelines require supervisory approval and documentation of all reversing entries made on the accounting system.

All of the 98 reversing entries (totaling \$401 million) made during September, October, and November 1998 had been properly approved and documented by management.

Another control used to safeguard the accounting system is the use of the access list and the violation report. The IRS maintains a listing of persons authorized to use the accounting system. In addition, the system shows who accessed the system and generates a violation report for any incorrect or unauthorized access.

Service Center Accounting management conducted weekly reviews, from September through November 1998, of the access list and the violation reports. No unauthorized persons were shown on the accounting system access list and the current violation reports identified no unexplained accesses.

Management's Response: IRS management said that they appreciated the validation of their efforts to resolve deposit discrepancies, obtain management approval for reversing erroneous accounting entries, and ensure only authorized employees had access to the accounting system. These efforts, along with the implementation of the Interim Revenue Accounting Control System, have improved the accuracy and integrity of the revenue accounting operations.

The Internal Revenue Service Has Improved Revenue Accounting Controls Over Deposit Discrepancies

Conclusion

The IRS has effectively strengthened service center controls. These controls have ensured timely resolution of deposit discrepancies and increased security over the accounting system.

The IRS effectively established and generally implemented procedures to timely resolve deposit discrepancies, require management approval for reversing erroneous accounting entries to the general ledger, ensure management review of security reports, and verify unconfirmed deposit tickets.

These procedures have reduced the risks associated with the deposit process and provide reasonable assurance that the IRS is effectively resolving deposit discrepancies at its service centers. The IRS' efforts to improve controls over deposit discrepancies, along with the implementation of the IRACS, have improved the accuracy and integrity of the revenue accounting operations.

The Internal Revenue Service Has Improved Revenue Accounting Controls Over Deposit Discrepancies

Appendix I

Detailed Objective, Scope, and Methodology

Our primary objective was to evaluate the effectiveness of Internal Revenue Service (IRS) management's corrective actions to resolve deposit discrepancies, obtain management approval for reversing erroneous accounting entries, and ensure only authorized employees had access to the accounting system. The evaluation of deposit discrepancies excluded electronic deposits because the IRS' corrective action was directed toward deposits physically received at the districts or service centers rather than electronically transmitted, such as Federal Tax Deposits.

To accomplish our objectives, we:

- I. Determined if Service Center Accounting management effectively implemented new computer requirements, timely reviewed reports to resolve deposit discrepancies, and verified overage deposit tickets shown as unconfirmed by depository banks.
 - A. Interviewed management and technical personnel at the Andover, Kansas City, Memphis, and Ogden Service Centers, and determined if proper procedures were being used for the discrepancy reports and for obtaining confirmation copies from depository banks.
 - B. Reviewed the 300 deposit tickets on the current discrepancy reports during our review period of September through November 1998, and determined if timely action was taken to initiate resolution of deposit discrepancies and if documentation was adequate.
 - C. Analyzed a judgmental sample of 56 of the 174 prior month deposit discrepancies listed on the July through September 1998 reports, and determined if timely and proper actions were taken to resolve the deposit discrepancies and documentation was adequate.
 - D. Reviewed the 223 memorandum copies of deposits on hand at the time of our review, and determined if timely actions were taken to verify the 61 unconfirmed deposits over 14 days old.
 - E. Evaluated the Internal Revenue Manual (IRM) and Systems Production Evaluation (PE) Report changes issued by the National Office to determine if management's corrective actions have been included in the documents.

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Accounting Controls Over Deposit Discrepancies**

- II. Determined if Service Center Accounting management is approving general ledger reversing entries and ensuring that only authorized employees have access to the accounting system.
 - A. Interviewed Service Center Accounting management and technical personnel at the Andover, Kansas City, Memphis, and Ogden Service Centers, and determined if current procedures were being used to review and approve general ledger reversing entries, monitor access to the accounting system, and review security violations.
 - B. Reviewed all 98 reversing entries on the general ledger made during September, October, and November 1998, and evaluated the adequacy of documentation and management approval contained on the 903 journal entry code.
 - C. Evaluated the periodic validation reviews management performed of the accounting system authorized access list.
 - D. Reviewed the September through November 1998 accounting system access list and the violation reports. Compared the 80 personnel on the lists to the listing obtained from the Detroit Computing Center, and determined whether authorized individuals had a business need to be on the system.
 - E. Evaluated the IRM and PE changes issued by the National Office to determine if Service Center Accounting management's corrective actions have been included in the documents.

**The Internal Revenue Service Has Improved Revenue
Accounting Controls Over Deposit Discrepancies**

Appendix II

Major Contributors to This Report

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Gary E. Lewis, Director

Gary L. Young, Audit Manager

Hal Schultz, Senior Auditor

Steve Vandigriff, Senior Auditor

Richard Lambrecht, Auditor

John P. Ojeda, Auditor

Tina Parmer, Auditor

**The Internal Revenue Service Has Improved Revenue
Accounting Controls Over Deposit Discrepancies**

Appendix III

Report Distribution List

Deputy Commissioner Operations C:DO
Chief Operations Officer OP
Chief Financial Officer M:CFO
Executive Officer for Service Center Operations OP:SC
Assistant Commissioner (Forms and Submission Processing) OP:FS
Director, Office of Program Evaluation and Risk Analysis M:O
National Director, Submission Processing OP:FS:S
Chief, Accounting Branch OP:FS:S:A
National Director for Legislative Affairs CL:LA
Office of Management Controls M:CFO:A:M
Office of the Chief Counsel CC
Director, Andover Service Center D
Director, Kansas City Service Center D
Director, Memphis Service Center D
Director, Ogden Service Center D

The Internal Revenue Service Has Improved Revenue Accounting Controls Over Deposit Discrepancies

Appendix IV

Management Actions from Prior Audit Report



ASSISTANT COMMISSIONER
(FORMS AND SUBMISSION
PROCESSING)

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Uc.

December 10, 1997

9800569

MEMORANDUM FOR CHIEF INSPECTOR

THRU: *John D. ...*
Acting Chief Taxpayer Service T

FROM: *Brien T. Downing*
Brien T. Downing
Assistant Commissioner (Forms and Submission
Processing) T:FS

SUBJECT: Draft Internal Audit Report - Review of Revenue Accounting
Controls Over Deposit Discrepancies (970030)

The following is our response to the subject draft Internal Audit Report:

Identity of Recommendation #1:

The Service should clarify the existing IRM to specifically define timeliness criteria for reconciling the Cash-Link 1136 report, and also state deposit discrepancy files must contain documentation of the resolution action taken by employees.

Assessment of Cause(s):

Currently, the IRM guidelines do not specifically define timeliness criteria for reconciling deposit discrepancy reports.

Corrective Action(s):

- 1a. IRM 3.17.63 (Service Center and Martinsburg Computing Center and Data Control) dated 10/1/97, has been revised to instruct the technicians to maintain comprehensive history sheets. These history sheets will document all actions taken to resolve any deposit discrepancies.
- 1b. A Systems Production Evaluation Report will be issued to the field in January 1998, with an implementation date of February 1, 1998, which will include specific time frames for reconciling the Cash-Link 1136 report.
- 1c. The 1998 revision of IRM 3.17.63 will include specific time frames for reconciling the discrepancy reports.

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Chief Inspector

Implementation Date:

- 1a. The required changes were included in the October 1, 1997, revision of the Service Center and Martinsburg Computing Center and Data Control IRM 3.17.63.

Completed October 1, 1997

- 1b. The identified corrective action will be issued in a January 1998, Systems Production Evaluation Report, for implementation February 1, 1998.

Proposed February 1, 1998

- 1c. The required changes will be included in the 1998 revision of IRM 3.17.63.

Proposed October 1, 1998

Responsible Official(s):

Chief, Accounting Branch
National Director, Submission Processing
Assistant Commissioner (Forms and Submission Processing)

Identity of Recommendation #2:

The Service should clarify the existing IRM to define criteria for timely reconciling the DTDV 035C and Statement of Difference reports. To ensure continued documentation, the Service should also state deposit discrepancy files must contain documentation of the resolution action taken by employees.

Assessment of Cause(s):

IRM 3.17.63 dated 4/1/96 did not specifically define timeliness criteria for reconciling the DTDV 035C and Statement of Difference reports.

Corrective Actions:

- 1a. IRM 3.17.63 dated 10/1/97 has been revised to define the criteria for timely reconciling the DTDV 035C and Statement of Difference reports. IRM 3.17.63 has also been revised to instruct the technicians to maintain comprehensive history sheets. These history sheets will document all actions taken to resolve any deposit discrepancies.

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Chief Inspector

Implementation Date:

- 1a. The required changes were included in the October 1, 1997, revision of the Service Center and Martinsburg Computing Center and Data Control IRM 3.17.83.

Completed October 1, 1997

Responsible Official(s):

Chief, Accounting Branch
National Director, Submission Processing
Assistant Commissioner (Forms and Submission Processing)

Identity of Recommendation #3:

- 1a. Management should reemphasize the importance of meeting the IRM requirement of manually matching the bank's deposit confirmation copy with the copy of the IRS deposit ticket.
- 1b. Management should also conduct periodic Cash-Link reviews to ensure timely resolution of discrepancies, and document the duplication required to also match the bank's deposit confirmation. If duplication is excessive, results should be presented to Financial Management Service (FMS) requesting reconsideration to remove the matching requirement.

Assessment of Cause(s):

- 1a. Since the confirmation of the deposit is received electronically via Cash-Link, the Service Centers view matching the deposit confirmation copy with the deposit tickets as a duplication of effort.
- 1b. The IRM does not specifically instruct management to conduct periodic Cash-Link reviews to ensure timely resolution of discrepancies.

Corrective Action(s):

- 1a. A Systems Production Evaluation Report will be issued to the field in January 1998, with a February 1, 1998, implementation date which will reemphasize the importance of matching the confirmation copy of the deposit ticket with the copy of the IRS deposit ticket.
- 1b. Submission Processing will issue a Systems Production Evaluation Report in January 1998, with a February 1, 1998, implementation date to instruct

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Chief Inspector

management to conduct periodic Cash-Link reviews to ensure timely resolution of discrepancies.

- 1c. We agree that duplication is excessive. Submission Processing will present this issue to FMS and request a change in the Treasury Financial Manual to eliminate the requirement to maintain the confirmed copy of the deposit ticket.

Implementation Date:

- 1a. A Systems Production Evaluation Report will be issued to the field in January 1998, for implementation February 1, 1998.

Proposed February 1, 1998

- 1b. A Systems Production Evaluation Report will be issued to the field in January 1998, for implementation February 1, 1998.

Proposed February 1, 1998

- 1c. A request for a change in the Treasury Financial Manual will be sent to FMS.

Proposed February 1, 1998

Responsible Official(s):

Chief, Accounting Branch
National Director, Submission Processing
Assistant Commissioner (Forms and Submission Processing)

Identity of Recommendation #4:

The service should modify the IRM to require that managerial approval of General Ledger reversing entries be documented and retained.

Assessment of Cause(s):

Currently, the IRM guidelines do not specifically require that managerial approval of General Ledger reversing entries be documented and retained.

Corrective Action(s):

- 1a. We will issue a Systems Production Evaluation Report to the field in January 1998, with an implementation date of February 1, 1998, which will

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Chief Inspector

include specific instructions to document and retain the managerial approval of reversing entries.

- 1b. The 1998 revision of IRM 3.17.63 will include specific instructions to document and retain the managerial approval of reversing entries.

Implementation Date:

- 1a. The identified corrective action will be issued in a Systems Production Evaluation Report in January 1998, for implementation February 1, 1998.

Proposed February 1, 1998

- 1b. The required changes will be included in the 1998 revision of IRM 3.17.63.

Proposed October 1, 1998

Responsible Official(s):

Chief, Accounting Branch
National Director, Submission Processing
Assistant Commissioner (Forms and Submission Processing)

Identity of Recommendation #5:

Management should ensure that periodic review of the Interim Revenue Accounting Control System (IRACS) authorized access list is performed to validate system access for the individuals listed.

Assessment of Cause(s):

Currently, the IRM guidelines do not require a periodic review of the Interim IRACS authorized access list.

Corrective Action(s):

- 1a. A Systems Production Evaluation Report will be issued to the field in January 1998, with an implementation date of February 1, 1998, which will include instructions for a periodic review of the IRACS authorized access list and to validate system access for the individuals listed.
- 1b. The 1998 revision of IRM 3.17.63 will include specific instructions to review the IRACS authorized access list and to validate system access for the individuals listed.

The Internal Revenue Service Has Improved Revenue Accounting Controls Over Deposit Discrepancies

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Chief Inspector

Implementation Date:

- 1a. A Systems Production Evaluation Report will be issued in January 1998, for implementation February 1, 1998.

Proposed February 1, 1998

- 1b. The required changes will be included in the 1998 revision of IRM 3.17.63.

Proposed October 1, 1998

Responsible Official(s):

Chief, Accounting Branch
National Director, Submission Processing
Assistant Commissioner (Forms and Submission Processing)

If you have any questions, please contact me or have a member of your staff contact Diane Geraghty of my staff at (202) 283-0253.

Attachment

The Internal Revenue Service Has Improved Revenue Accounting Controls Over Deposit Discrepancies

Appendix V

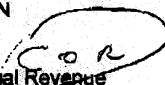
Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

November 19, 1999

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM: Charles O. Rossotti 
Commissioner of Internal Revenue

SUBJECT: Office of Treasury Inspector General for Tax Administration
(OTIGTA) Draft Audit Report – The Internal Revenue Service
Has Improved Revenue Accounting Controls Over Deposit
Discrepancies (Reference No. 19990002)

Thank you for the opportunity to respond to the above OTIGTA draft report related to revenue accounting controls over deposit discrepancies. We are pleased that OTIGTA has validated the Internal Revenue Service's (IRS) efforts to resolve deposit discrepancies, obtain management approval for reversing erroneous accounting entries, and ensure only authorized employees had access to the accounting system. As reflected in the 1997 and 1998 General Accounting Office's audit of our custodial financial statements, these efforts along with the development and implementation of our Interim Revenue Accounting Control System in 1996 have greatly improved the accuracy and integrity of the IRS' revenue accounting operations.

The report reflects the fact that the IRS has effectively established and implemented procedures that ensure timely resolution of deposit discrepancies and increased security over the accounting system. The corrective actions included: (1) clarifying the Internal Revenue Manual (IRM) to specifically define timeliness criteria for reconciling and reviewing daily and monthly discrepancy reports, and ensure deposit discrepancy files contain documentation of employees' resolution action, (2) modifying the IRM to require documentation of managerial approval for reversing erroneous accounting entries to the general ledger, (3) ensuring that periodic review of the accounting system authorized user list is performed to validate system access for the individuals listed, and (4) reemphasizing the importance of meeting the written requirement of manually matching the depository bank confirmation copies with the copies of the IRS deposit tickets.

Your assessment was that IRS guidelines were adequately revised and that service center personnel implemented the procedures effectively. As a result, we have reduced the risks associated with the deposit process and provided reasonable assurance that

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the IRS is effectively managing deposit discrepancies at its service centers. Even though this report contained no recommendations, we are constantly striving to improve our revenue accounting processes; therefore, any additional recommendations are always welcomed.

If you have any questions regarding this response, please feel free to contact Brien T. Downing, Assistant Commissioner (Forms and Submission Processing), at (202) 622-2875.