

GAO

Report to the Commissioner of Internal Revenue

April 2005

INTERNAL REVENUE SERVICE

Status of  
Recommendations  
from Financial Audits  
and Related Financial  
Management Reports



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-05-393](#), a report to the Commissioner of Internal Revenue

## INTERNAL REVENUE SERVICE

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

### Why GAO Did This Study

In its role as the nation's tax collector, the Internal Revenue Service (IRS) has a demanding responsibility for 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 status of 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 fully address them.

### What GAO Found

As in past years, IRS has continued to make improvements to address a number of financial management weaknesses. At the same time, a number of the open audit recommendations have been outstanding for an extended period of time. IRS has continued to experience delays in the implementation of the new systems intended to correct some of these long-standing deficiencies. Others, however, could be resolved with additional management attention. The continued existence of these financial management weaknesses exposes IRS to loss due to errors or theft and impairs the availability of current, accurate financial information that management needs to make decisions on a day-to-day basis.

Of 118 recommendations related to financial management (consisting of 76 recommendations open as of April 2004, 9 recommendations included in GAO's January 2005 report on the timeliness of IRS lien releases, 3 recommendations included in GAO's March 2005 report on the Brookhaven Service Center Campus rampdown, and 30 new recommendations included in GAO's management report for fiscal year 2004), GAO is closing 34 due to effective 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 2004 financial statements.

Of the remaining 84 financial management recommendations GAO considers open as of the date of this report, 75 are short term (capable of being addressed within 2 years) and 9 are long term (expected to require more than 2 years to implement). IRS considers 40 (48 percent) of the 84 recommendations to be closed. GAO considers 21 of these 40 to be still open because it has not yet had an opportunity to verify the actions taken by IRS. The actions cited by IRS for these 21 recommendations are recent and were taken after GAO's financial statement audit work for the year was completed. For 18 of the 40 recommendations that IRS considers closed, GAO found that action taken by IRS has not yet been fully effective in addressing the conditions that gave rise to the recommendations. 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.

IRS stated that it has begun to address the 42 new recommendations included in the report. GAO will review these corrective actions and the status of IRS's progress in implementing all open recommendations as part of the fiscal year 2005 audit.

[www.gao.gov/cgi-bin/getrpt?GAO-05-393](http://www.gao.gov/cgi-bin/getrpt?GAO-05-393).

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

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**Abbreviations**

AUR	Automated Underreporter
CADE	Customer Account Data Engine
CAP	Custodial Accounting Project
FMS	Financial Management Service
IFS	Integrated Financial System
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
LPG	Lockbox Processing Guidelines
MOU	Memorandum of Understanding
NBIC	National Background Investigation Center
NFC	National Finance Center
P&E	property and equipment
SB/SE	Small Business/Self-Employed
SCC	Service Center Campuses
SETS	Security Entry and Tracking System
SPC	Submission Processing Center
TAC	Taxpayer Assistance Center
TFRP	Trust Fund Recovery Penalty
W&I	Wage and Investment

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United States Government Accountability Office  
Washington, D.C. 20548

April 29, 2005

The Honorable Mark W. Everson  
Commissioner of Internal Revenue

Dear Mr. Everson:

This report provides the status of the Internal Revenue Service's (IRS) efforts to implement recommendations we have made based on our audits of IRS's financial statements and other efforts related to financial management. In updating the status of these recommendations, we have included the results of our audits of IRS's financial statements for fiscal years 2004 and 2003.<sup>1</sup> This report is being provided to you to (1) assist IRS management in tracking the unresolved issues identified in our prior audits<sup>2</sup> and (2) report on the current status of open audit recommendations detailed in our previous and most recent financial audit and financial management-related reports.<sup>3</sup> In cases where IRS has taken action on open recommendations that did not result in our closing them, we explain why this occurred. No new recommendations are being made in this report.

Since our first audit of IRS's financial statements in fiscal year 1992, our audits have identified a number of weaknesses in IRS's financial management operations. In related reports on IRS's internal controls, we have recommended corrective actions to address those weaknesses. Appendix I lists (1) recommendations we have made based on our financial audits and other financial management-related work that we have not previously reported as closed, (2) the status of each of these recommendations and corrective actions taken or planned as of February 2005 as reported to us by IRS and incorporated in appendix I, and (3) our analysis of whether the issues that gave rise to the recommendations have been effectively and fully addressed based on the

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<sup>1</sup> GAO, *Financial Audit: IRS's Fiscal Years 2004 and 2003 Financial Statements*, [GAO-05-103](#) (Washington, D.C.: Nov. 10, 2004).

<sup>2</sup> GAO, *Internal Revenue Service: Status of Recommendations from Financial Audits and Related Financial Management Reports*, [GAO-04-523](#) (Washington, D.C.: Apr. 28, 2004).

<sup>3</sup> GAO, *Opportunities to Improve Timeliness of IRS Lien Releases*, [GAO-05-26R](#) (Washington, D.C.: Jan. 10, 2005); *Review of Controls over Safeguarding Taxpayer Receipts and Information at the Brookhaven Service Center Campus*, [GAO-05-319R](#) (Washington, D.C.: Mar. 10, 2005); and *Management Report: Improvements Needed in IRS's Internal Controls*, [GAO-05-247R](#) (Washington, D.C.: Apr. 27, 2005).

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work performed during our fiscal year 2004 financial audit. Effectively implementing recommendations is critical for IRS to resolve its financial management challenges.

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## Status of Recommendations

In April 2004, we issued a report that provided (1) the status of IRS's efforts to implement prior recommendations as of our fiscal year 2003 financial audit<sup>4</sup> and (2) new recommendations based on the results of our fiscal year 2003 financial audit.<sup>5</sup> In the April 2004 report, we included 100 audit recommendations that we had not previously reported as being closed, 1 dating back as far as 1993. Of the 100 recommendations, 24 were closed at the time that report was issued, leaving 76 that were used as a starting point for appendix I of this report. For this year, we added 9 recommendations from our January 2005 report on the timeliness of IRS lien releases, 3 recommendations from our March 2005 report on the Brookhaven Service Center Campus rampdown,<sup>6</sup> and 30 new recommendations included in our management report related to our audit of IRS's fiscal year 2004 financial statements, for a total of 118 recommendations. Based on the results of our recently completed fiscal year 2004 financial audit, we are closing 34 recommendations made in prior audits due to effective actions IRS has taken to address the issues that gave rise to them. Therefore, as of the date of this report, 84 financial management recommendations remain open, 75 of which are short term and 9 of which are long term.<sup>7</sup>

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<sup>4</sup> GAO, *Financial Audit: IRS's Fiscal Years 2003 and 2002 Financial Statements*, GAO-04-126 (Washington, D.C.: Nov. 13, 2003).

<sup>5</sup> GAO-04-523.

<sup>6</sup> The term "rampdown" is used to refer to IRS's significant reduction of its submission processing functions at selected service center campuses. In fiscal year 2004, Brookhaven became the first service center campus to downsize its submission processing function.

<sup>7</sup> Short-term recommendations are defined as those that could be addressed within 2 years at the time we made the recommendation. Long-term recommendations are defined as those expected to require 2 years or more to implement at the time we made the recommendation.

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As indicated in appendix I, of the 84 recommendations we consider to be open, IRS considers 40 (48 percent) to be closed. We consider 21 of these recommendations to be open because IRS took corrective action to resolve these recommendations after we completed our testing for the fiscal year 2004 audit. As a result, we have not yet had time to verify implementation of the corrective actions, which is a prerequisite to our closing a recommendation. We will verify the effectiveness of IRS's actions to address these recommendations during our audit of IRS's fiscal year 2005 financial statements. For 18 of the 40 recommendations that IRS considers closed, we found that the initial action taken by IRS in the current or prior years has not been fully effective in addressing the conditions that gave rise to the recommendations. For 8 of these 18 recommendations, IRS initiated additional corrective action after we completed our fiscal year 2004 audit and, as a result, we have not yet had time to verify the effectiveness of these additional actions. IRS disagrees with the remaining recommendation,<sup>8</sup> though it had agreed with the recommendation at the time it was made.

Sixteen of the 18 recommendations that IRS considers closed but that we consider open involved the issuance of formal written policies or directives aimed at addressing the internal control deficiencies that gave rise to the recommendations. However, we found that these policies or directives were not being adhered to or were not fully effective in correcting the deficiencies that led to the recommendations. We also found that the revised policies or directives intended to correct 4 of these 16 recommendations did not adequately address the underlying issues. We continue to be concerned that IRS's actions in a number of cases consist of writing policies and procedures without providing a mechanism to ensure proper and ongoing implementation. We believe that the 16 recommendations could be resolved with additional management follow-up to see that the revised policies and directives specifically address the issues and that corrective actions as envisioned in policy and procedural changes are fully and effectively implemented. In the interim, to the extent the underlying weaknesses continue to exist, they will impair the quality and timeliness of IRS's financial information and increase its exposure to losses.

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<sup>8</sup> Recommendation 03-08 in appendix I was issued to correct a potential conflict in the responsibilities of lockbox coordinators, who assist lockbox banks with processing issues and who also perform the on-site performance review of those banks.

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A significant number of the 84 recommendations in appendix I that we consider open have been outstanding for an extended period of time. Twenty-eight (33 percent) of the recommendations were made over 2 years ago, including 9 recommendations from more than 3 years ago, 9 recommendations from more than 5 years ago, and 1 recommendation that has remained open for over 10 years. The continued existence of the issues that gave rise to these recommendations exposes IRS to losses due to errors or theft and impairs the availability of current, accurate financial information management needs to make decisions.

The majority of the 84 recommendations that we consider to be open address one of two broad issues:

- Forty-eight (57 percent) of the recommendations, all of which we consider to be short term, relate to weaknesses in controls for safeguarding taxpayer receipts and information at lockbox banks and IRS sites. These continued weaknesses expose IRS to unnecessary risk of loss of funds and increase taxpayer exposure to losses from financial crimes committed by individuals who inappropriately gain access to confidential personal information. IRS considers 31 of these recommendations closed. However, during our fiscal year 2004 financial audit, we found that IRS's corrective actions had not fully resolved the issues for 15 of these 31 recommendations and, for the remaining 16 recommendations, IRS's actions occurred after we completed our testing for the fiscal year 2004 audit. For example, in January 2003, we recommended that IRS require lockbox bank management to ensure that returned refund checks are restrictively endorsed immediately upon extraction and that IRS take steps to monitor adherence to this requirement. IRS included the requirement in the 2004 "Lockbox Processing Guidelines"<sup>9</sup> and stated that it evaluates adherence to this requirement during quality reviews of lockbox operations. However, extraction staff at one of the four lockbox banks we visited during our fiscal year 2004 audit informed us that returned refund checks were processed without immediately being stamped.

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<sup>9</sup> Internal Revenue Service, "2004 Lockbox Processing Guidelines" (Washington, D.C: January 2004), and subsequent 2004 updates. The 2004 Lockbox Processing Guidelines provides guidelines for processing work at lockbox banks serving IRS for the 2004 tax processing year.



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- Nine (11 percent) of the recommendations relate to serious financial management weaknesses that are rooted in IRS's continued reliance on outdated automated systems. Correcting these deficiencies depends largely on the ultimate success of IRS's ongoing systems modernization effort. Our prior reviews have disclosed numerous management control deficiencies in IRS's systems modernization effort that have contributed to reported cost overruns and delays in the implementation of the systems intended to resolve financial management issues.<sup>10</sup> For example, IRS implemented the first release of its new Integrated Financial System (IFS) in November 2004, about 2 years later than initially planned. IFS Release 1 provides core financial, budget formulation, and cost accounting capabilities. However, full cost accounting capabilities will not be realized until future releases, such as Work Management, are implemented. According to IRS, implementation of subsequent releases, which provide property, procurement, and performance management functions, is being indefinitely deferred because of Release 1 delays and funding issues. Also, after significant delays, IRS has begun processing some of the least complex individual tax returns through the first release of the Customer Account Data Engine (CADE), the new system designed to modernize IRS's taxpayer files. Due to cost overruns and delays, IRS has stopped the Custodial Accounting Project (CAP), another key financial management initiative that was intended to provide management information related to tax operations needed for day-to-day decision making, performance management, and reporting. It was initially planned that CADE would provide tax information to IFS for reporting purposes through CAP. IRS is currently examining options to implement alternative systems that would perform the functions that CAP had been intended to perform. Successful implementation of future releases of IFS, CADE, and other system initiatives is essential to correcting IRS's long-standing financial management deficiencies and internal control weaknesses that prevent IRS from producing reliable and timely financial information needed for decision making on an ongoing basis.

Although IRS continues to experience delays in implementing the systems intended to address many underlying financial management and operations issues, it has made improvements in recent years that have resulted in the closing of many recommendations. For example, IRS made significant

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<sup>10</sup> GAO, *Business Systems Modernization: IRS's Fiscal Year 2004 Expenditure Plan*, GAO-05-46 (Washington, D.C.: Nov. 17, 2004).

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progress in addressing issues related to its administrative accounting operations, which resulted in our closing 8 of 18 recommendations related to IRS's administrative operations. However, delays in implementing subsequent releases of IFS and other systems would inhibit significant additional progress in addressing the remaining administrative accounting operation issues because these subsequent IFS releases and other system efforts would address 7 of the remaining 10 administrative accounting operations-related recommendations. Delays in implementation of other systems would also inhibit IRS's ability to correct 2 deficiencies related to unpaid tax assessments, tax revenue, and refunds. Consequently, the continued delays in the implementation of new systems and the other serious financial management weaknesses that gave rise to many of the remaining open recommendations represent a serious obstacle that IRS needs to overcome to achieve effective financial management and have available accurate, timely financial reporting and other information that is critical for effective day-to-day decision making.

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## Agency Comments and Our Evaluation

In commenting on a draft of this report, IRS said it has begun to aggressively address the 42 new recommendations arising from our fiscal year 2004 audit, which are included in the report. For example, IRS stated that it has developed a comprehensive action plan to address recommendations related to lockbox banks, which includes partnering with Treasury's Financial Management Service to align lockbox bank contractual requirements with IRS's physical security policies. We will review the effectiveness of these corrective actions and the status of IRS's progress in addressing all open recommendations as part of our fiscal year 2005 IRS financial audit.

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## Objective, Scope, and Methodology

The objective of this report is to assist IRS management in tracking the status of financial audit and financial management-related recommendations and the actions needed to address them. To accomplish this objective, we evaluated the effectiveness of IRS's corrective actions implemented in response to open recommendations during fiscal year 2004 as part of our fiscal years 2004 and 2003 financial audits.<sup>11</sup> Further details on the scope and methodology of our IRS financial audit work are included in appendix II. We obtained from IRS its assessment of the status of each

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<sup>11</sup> [GAO-05-103](#).

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recommendation and corrective action taken or planned as of February 2005, which we included in appendix I. We compared IRS's actions to our fiscal year 2004 audit findings and noted any differences between IRS's and our conclusions regarding the status of each recommendation. We conducted our audit in accordance with U.S. generally accepted government auditing standards. We requested comments on a draft of this report from the Commissioner of Internal Revenue or his designee. We received written comments from IRS, which are reprinted in appendix III.

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We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations; Senate Committee on Finance; Senate Committee on Homeland Security and Governmental Affairs; Senate Committee on the Budget; Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development and Related Agencies, Senate Committee on Appropriations; Subcommittee on Taxation and IRS Oversight, Senate Committee on Finance; Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Senate Committee on Homeland Security and Governmental Affairs; House Committee on Appropriations; House Committee on Ways and Means; House Committee on Government Reform; House Committee on the Budget; Subcommittee on Transportation, Treasury, and Housing and Urban Development, the Judiciary, and the District of Columbia, House Committee on Appropriations; Subcommittee on Government Management, Finance, and Accountability, House Committee on Government Reform; and Subcommittee on Oversight, House Committee on Ways and Means. In addition, we are sending copies of this report to the Chairman and Vice Chairman of the Joint Committee on Taxation, the Secretary of the Treasury, the Director of the Office of Management and Budget, the Chairman of the IRS Oversight Board, and other interested parties. Copies will be made available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

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If you have any questions concerning this report, please contact me at (202) 512-3406 or [sebastians@gao.gov](mailto:sebastians@gao.gov). Major contributors to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Steven J. Sebastian". The signature is written in a cursive style with a large initial 'S'.

Steven J. Sebastian  
Director  
Financial Management and Assurance

# Status of GAO Recommendations from Prior IRS Financial Audits and Related Management Reports

Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
1	94-2	Monitor implementation of actions to reduce the errors in calculating and reporting manual interest on taxpayer accounts, and test the effectiveness of these actions. (short-term)	<i>Financial Management: Important IRS Revenue Information Is Unavailable or Unreliable</i> (GAO/AIMD-94-22, Dec. 21, 1993)	Open. IRS is addressing the issue by increasing automation of restricted interest calculations, educating the workforce, and developing a quality review process. In 2004, IRS updated interest training and began quality reviews. IRS will begin to measure accuracy based on the quality reviews in 2005.	Open. We will review the results of IRS's quality reviews and test the accuracy of IRS's manual interest calculations during our fiscal year 2005 financial audit.

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Status of GAO Recommendations from Prior  
IRS Financial Audits and Related  
Management Reports**

*(Continued From Previous Page)*

Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
2	99-1	Manually review and eliminate duplicate or other assessments that have already been paid off to assure that all accounts related to a single assessment are appropriately credited for payments received. (short-term)	<i>Internal Revenue Service: Immediate and Long-Term Actions Needed to Improve Financial Management</i> (GAO/AIMD-99-16, Oct. 30, 1998)	Open. IRS implemented its action plan to improve the timely cross-referencing of Trust Fund Recovery Penalty (TFRP) payments, which included identifying and correcting processing problems, conducting training to provide clarification of processing steps, and implementing mandatory quality reviews. In addition, IRS plans to consolidate all TFRP work in one campus. This will ensure better control over the quality, timeliness, and accuracy of transcript processing. As IRS moves forward with the consolidation process, it will be able to use the Automated Trust Fund Recovery (ATFR) system to perform automated payment verifications on Individual Master File (IMF) accounts assessed after August 2001. When the transcript is received, ATFR verifies that all previous payments have been cross-referenced properly as well as indicates where the current payment should be cross-referenced. Currently, IRS has this capability on the campus that has been selected as the centralized site. The Chief Financial Officer (CFO) is also developing a TFRP database that will establish the links to more accurately report the single balance due from these assessments, and determine areas for improvement in the TFRP process.	Open. We recognize automation of the current TFRP program is much needed. However, IRS's efforts to date have not been effective. A 2004 internal IRS report indicated over half of all TFRP cases targeted for correction still contained posting errors. Additionally, it reported that 1 in 3 cases with recent trust fund activity had posting errors. In fiscal year 2004, we reviewed 50 TFRP cases and estimated that 16 percent contained payments that were not properly reflected in each responsible party's account. We will continue to review IRS's initiatives to improve posting of TFRP cases and test TFRP cases for proper postings to all related accounts as part of our fiscal year 2005 financial audit.

**Appendix I  
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*(Continued From Previous Page)*

Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
3	99-3	Ensure that IRS's modernization blueprint includes developing a subsidiary ledger to accurately and promptly identify, classify, track, and report all IRS unpaid assessments by amount and taxpayer. This subsidiary ledger must also have the capability to distinguish unpaid assessments by category in order to identify those assessments that represent taxes receivable versus compliance assessments and write-offs. In cases involving trust fund recovery penalties, the subsidiary ledger should ensure that (1) the trust fund recovery penalty assessment is appropriately tracked for all taxpayers liable but counted only once for reporting purposes and (2) all payments made are properly credited to the accounts of all individuals assessed for the liability. (short-term)	<i>Internal Revenue Service: Immediate and Long-Term Actions Needed to Improve Financial Management</i> (GAO/AIMD-99-16, Oct. 30, 1998)	Open. The Custodial Accounting Project (CAP) is being stopped due to budget cuts. IRS is currently examining other options for addressing this recommendation using alternative approaches that leverage IRS's existing Financial Management Information System (FMIS) and the Interim Revenue Accounting Control System (IRACS) used to support the custodial balances on the financial statements. The CFO is also developing a TFRP database that can establish the links to more accurately report the single balance due from these assessments and determine areas for improvement in the TFRP process. The CFO is developing a business case and will pursue opportunities to identify resources within IRS's IT budget to fund this effort. IRS is continuing to develop the automated system to manage TFRP, as discussed under recommendation 99-1. Final phase of implementation for the automated trust fund system is anticipated in 2005.	Open. We will continue to monitor IRS's development of an alternative strategy for CAP, as well as its implementation of the new TFRP system and its other initiatives to improve the TFRP process. IRS's plan to address our specific recommendation regarding TFRP cases is discussed in recommendation 99-1.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
4	99-17	Ensure that all returned refund checks are stamped "nonnegotiable" as soon as they are extracted. (short-term)	<i>Internal Revenue Service: Physical Security over Taxpayer Receipts and Data Needs Improvement (GAO/AIMD-99-15, Nov. 30, 1998)</i>	Closed. In January 2005, the Submission Processing Director's Office contacted each Submission Processing Center (SPC) to address deficiencies identified by GAO in 2004 regarding over stamping of returned refund checks. Local management was asked to discuss the deficiencies with their employees on a regular basis and ensure corrective action is taken. This issue will be reviewed monthly by the campus security review team and findings will be shared with the Submission Processing Field Directors for additional action, if required.	Open. During our fiscal year 2004 audit, we continued to observe that IRS staff were not consistently aware of the requirement for over stamping returned refund checks. At one service center campus we visited, the Refund Inquiry Unit staff explained that the checks received from some Small Business/Self-Employed (SB/SE) units had "void" written on them but were not over stamped with the appropriate stamp. IRS's reported actions to address deficiencies in over stamping returned refund checks occurred after our fiscal year 2004 fieldwork. We will review the results of IRS's actions during our fiscal year 2005 audit.



**Appendix I  
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Count	No.	Recommendation	Source report	Status of recommendations	
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5	99-19	Ensure that walk-in payment receipts are recorded in a control log prior to depositing the receipts in the locked container and ensure that the control log information is reconciled to receipts prior to submission of the receipts to another unit for payment processing. To ensure proper segregation of duties, an employee not responsible for logging receipts in the control log should perform the reconciliation. (short-term)	<i>Internal Revenue Service: Physical Security over Taxpayer Receipts and Data Needs Improvement (GAO/AIMD-99-15, Nov. 30, 1998)</i>	Closed. The Internal Revenue Manual (IRM) was updated to require employees to record payments on Form 795, Daily Report of Collection Activities, and to immediately place the payment in a locked container. IRM procedures also provide for a reconciliation process. The procedures require the employee who prepared Form 795 to reconcile all receipts with the payment information on Form 795 before forwarding to SPC. The SPC also performs reconciliation by placing a distinct mark on Form 795 to indicate the documents listed were received. The SPC returns the Form 795 to the manager acknowledging receipt of Form 795 and all attachments. These procedures are consistent with procedures followed by other IRS functions.	Open. During our fiscal year 2004 audit, we found that IRS had updated the IRM and Taxpayer Assistance Center (TAC) operational reviews to require employees to record payments on Form 795 and to immediately place payments in a locked container and provide for a reconciliation process for these payments. However, during our 2004 audit visits to IRS field offices, we continued to find that checks were not always stored in locked or secured containers. In addition, the IRM reconciliation procedures for payments do not provide for adequate segregation of duties between the employee who prepares the Form 795 upon accepting a receipt and the employee who reconciles the Form 795 prior to forwarding to SPC.
6	99-20	Analyze and determine the factors causing delays in processing and posting TFRP assessments. Once these factors have been determined, IRS should develop procedures to reduce the impact of these factors and to ensure timely posting to all applicable accounts and proper offsetting of refunds against unpaid assessments before issuance. (short-term)	<i>Internal Revenue Service: Custodial Financial Management Weaknesses (GAO/AIMD-99-193, Aug. 4, 1999)</i>	Open. Implementation of the ATFR system continues. Phase I, which automates calculation and assessment of penalties to ensure accuracy and timeliness, was implemented in July 2003. Phase II, which automates the manual steps of the campus process to timely cross-reference payments, was implemented on one campus in 2004. IRS began its Phase III centralization process in January 2005 by directing the new assessment work from one campus to the centralized site as a test.	Open. IRS's plan to address our specific recommendation regarding TFRP cases is discussed in recommendation 99-1. When IRS completes implementation of its ATFR program, we will review its effectiveness in eliminating processing delays. In the meantime, we will continue to monitor trust fund recovery penalty processing timeliness.

**Appendix I  
Status of GAO Recommendations from Prior  
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*(Continued From Previous Page)*

Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
7	99-22	Expand IRS's current review of campus deterrent controls to include similar analyses of controls at IRS field offices in areas such as courier security, safeguarding of receipts in locked containers, requirements for fingerprinting employees, and requirements for promptly oversteamping checks made out to "IRS" with "Internal Revenue Service" or "United States Treasury." Based on the results, IRS should make appropriate changes to strengthen its physical security controls. (short-term)	<i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> (GAO/AIMD-99-193, Aug. 4, 1999)	Closed. The guidelines in the Fiscal Year 2003 Operating Procedures for TACs for safeguarding receipts in locked containers and over-stamping checks made payable to IRS were incorporated into the IRM in June 2003. IRS monitored adherence to these procedures during operational reviews of the TACs conducted in fiscal year 2004 and found no discrepancies. Operating procedures state, in part, that all remittances and related returns must be recorded on Form 795, Daily Report of Collection Activity, and placed in a locked container until transmitted to the appropriate SPC. Payments in the form of personal checks, cashier checks, and money orders should be made payable to "United States Treasury." Checks made out to IRS or U.S. Treasury must be oversteamped with the words "United States Treasury" immediately upon receipt. IRS is also including these issues in its operational reviews of the TACs. Managers in the TACs are also required to complete an annual review that includes these issues. Also, the Small Business and Self Employed Division (SB/SE) will issue a reminder on the SB/SE Web site to all employees that payments received from taxpayers must be made out to the United States Treasury. Any payments received not made out to the United States Treasury will be oversteamped with the correct wording.	Open. We verified that IRS's guidelines for safeguarding receipts in locked containers and over-stamping checks made payable to "IRS" with "United States Treasury" were included in the IRM and in TAC operational reviews. However, during our fiscal year 2004 audit visits to IRS field offices, we continued to find that checks were not always stored in locked or secured containers. In addition, we found that checks made out to "IRS" were not always immediately oversteamped with "United States Treasury" because staff was unaware of the policy or because some units did not have the appropriate stamp. Some of IRS's reported actions to strengthen its controls for storing and oversteamping checks occurred subsequent to our fiscal year 2004 fieldwork. We will continue to evaluate IRS's correction actions during our fiscal year 2005 audit.

**Appendix I  
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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
8	99-25	Ensure that additional staff are employed or existing staff appropriately cross-trained to be able to perform the master file extractions and other ad hoc procedures needed for IRS to continually develop reliable balances for financial reporting purposes. (short-term)	<i>Internal Revenue Service: Custodial Financial Management Weaknesses</i> ( <a href="#">GAO/AIMD-99-193</a> , Aug. 4, 1999)	Open. The CAP is being stopped due to budget cuts. IRS is currently examining other options for addressing this recommendation using alternative approaches that leverage on IRS's existing FMIS and IRACS used to support the custodial financial audit. The CFO is developing a business case and will pursue opportunities to identify resources within IRS's information technology budget to fund this effort. The need to build an appropriate depth of experience is still an immediate and ongoing issue. We continue to examine our resources to see if work can be realigned, and if existing employees can be retrained. Contractor support is used to provide the support and backup necessary for preparation of the compensating procedures, pending implementation of an alternative CAP solution and the Customer Account Data Engine (CADE). IRS is committed to supporting the funding of contractor resources that are used for the Custodial Financial Statement Audit. This corrective action will be continually monitored and developed as new solutions to the problem are identified.	Open. In fiscal year 2004, IRS continued to augment its own resources with contractor support to produce auditable financial statements. We will continue to assess IRS's actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
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9	99-29	Develop the data to support meaningful cost information categories and cost-based performance measures. (long-term)	<i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999)	Open. Integrated Financial System (IFS) Release 1, which was implemented on November 10, 2004, includes a cost module that will interface with program area management information systems. Both direct and indirect resource cost data will be linked to the budget process and the strategic planning goals of all business units. This will help move IRS forward in transitioning to a performance-based organization. Full cost accounting will not be realized until future releases, such as Work Management, are implemented. At present these releases are being reevaluated based on funding availability. All future releases have been delayed or placed on indefinite hold.	Open. We will follow up during future audits to assess IRS's progress in implementing a cost-accounting system and loading it with the cost information needed to support cost-based performance measures.
10	99-36	Make enhancements to IRS financial systems to include recording plant and equipment (P&E) and capital leases as assets when purchased and to generate detailed records for P&E that reconcile to the financial records. (long-term)	<i>Internal Revenue Service: Serious Weaknesses Impact Ability to Report on and Manage Operations</i> (GAO/AIMD-99-196, Aug. 9, 1999)	Open. In the November 10, 2004, IFS Release 1, P&E is being recorded as an asset when purchased. The ability to tie to the detailed physical asset information and a fully integrated system with subsidiary records will not be available until the IFS Asset Management module is implemented. At present, all future releases are being reevaluated based on funding availability and have been delayed or placed on indefinite hold.	Open. IRS implemented the first release of the new IFS on November 10, 2004, which will allow recording P&E and capital leases as assets when purchased. However, implementation of a property asset module that is intended to generate detailed records for P&E that will reconcile to the financial records is being deferred indefinitely due to funding constraints. We will continue to monitor IRS's progress in implementing subsequent IFS releases and the property asset module.

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11	01-02	Revise policies and procedures governing the processing of abatement transactions to establish (1) appropriate time frames for processing abatements, (2) a methodology for monitoring the timeliness of abatement processing, and (3) procedures to identify the causes for delays and formulate corrective actions. Also, examine abatement transactions arising from IRS errors to determine the causes for the errors and, based on this examination, formulate and implement appropriate procedures to reduce the level of errors made when entering data into taxpayer accounts. (short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. IRS has not established specific time frames for processing abatements because large dollar claims often require additional documentation to verify a claim's validity. Often these cases go through examination, or have other taxpayer compliance issues. Allowing interest on refunds for these cases taking longer than 45 days to process is part of IRS's cost of doing business. The Office of Unpaid Assessments reviewed abatement cases identified for the 2002 audit and found that there were compliance activities in each case that required interest. In addition, IRS enhanced its policies and procedures to monitor the processing of abatement transactions.	Closed. IRS enhanced its policies and procedures to monitor the processing of abatement transactions. However, due to the complex nature of resolving underlying issues for certain types of abatements, IRS did not establish specific time frames for processing abatements. For example, large dollar claims often require additional documentation to verify a claim's validity. Often these claims go through examination, or have other taxpayer compliance issues. Based on our fiscal year 2004 audit, we found that IRS was processing abatements in a reasonable manner.

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12	01-03	Implement procedures to monitor the age of all pending offers and to require supervisors to follow up with staff to determine within 6 months whether to accept or reject the offer. (short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. Over the last several years, IRS has made significant improvements in the timeliness of Offer in Compromise (OIC) investigations. IRS implemented two Centralized Offer in Compromise (COIC) sites that process lower dollar and less complex offers. The COIC sites also complete the front-end processing for the field offers. Because front-end processing and statutory back-end reviews added approximately 90 days or more to processing time for field offers, IRS adjusted the processing goal for field-based offers to 9 months, effective October 2004. IRS strengthened management controls by creating additional management reports on OIC inventories, closely monitoring age and inventory levels, and developing more specific expectations for timely case actions. As of December 2004, 95 percent of OIC work in process in our COIC sites was 6 months old or less and 70 percent of the field open inventory was 9 months old or less.	Closed. IRS improved its procedures for monitoring the age of pending offers and it significantly increased its closure rate for offers in compromise.

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13	01-04	As an alternative to prematurely suspending active collection efforts, and using the best available information, develop reliable cost-benefit data relating to collection efforts for cases with some collection potential. These cost-benefit data would include the full cost associated with the increased collection activity (i.e., salaries, benefits, administrative support), as well as the expected additional tax collections generated. (long-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Open. IFS Release 1, which was implemented on November 10, 2004, includes a cost module that will interface with program area management information systems. However, full cost accounting will not be realized until future releases, such as Work Management, are implemented. At present these releases are being reevaluated based on funding availability. All future releases have been delayed or placed on indefinite hold. IRS has implemented sophisticated modeling technology to identify productive and less productive cases in order to make better decisions on resource allocation. These models use a multitude of taxpayer attributes to assess likelihood of collection and then feed results into the prioritization risk factors currently in place. While not actual "cost-benefit" analyses, these models help IRS ensure that resources are devoted to cases with a high likelihood of collection, and also help prevent premature suspension of collection efforts on these particular cases. IRS is working on an initiative to approach collection inventory with a corporate perspective. This study will assess the functional impact of changes on individual collection components and result in short- and long-term recommendations. These recommendations will help increase collection coverage and leverage existing resources by allocating workload to existing treatment streams based on capacity and authorities.	Open. We will continue to review IRS's initiatives to manage resource allocation levels for its collection efforts.

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14	01-06	Implement procedures to closely monitor the release of tax liens to ensure that they are released within 30 days of the date the related tax liability is fully satisfied. As part of these procedures, IRS should carefully analyze the causes of the delays in releasing tax liens identified by our work and prior work by IRS's former internal audit function and ensure that such procedures effectively address these issues. (short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> ( <a href="#">GAO-01-42</a> , Nov. 17, 2000)	Open. IRS staff conducted reviews of the lien processing units and OIC sites in 2004. In addition, IRS staff has developed an overall action plan to address untimely lien releases, including identification of root causes and where they occur organizationally, and development and implementation of sub-action plans to address each specific root cause.	Open. During our fiscal year 2004 audit, we continued to find delays in release of liens. We found 13 instances out of 59 cases tested in which IRS did not release the applicable federal tax lien within the 30-day statutory period. The time between the satisfaction of the liability and release of the lien ranged from 34 days to 2,100 days. We also performed a review of IRS operations at lien units and have identified some of the causes for delays in the timely release of liens. Specifically, we identified that exception reports generated during the lien process were not being resolved or were not being resolved timely by the lien units. We made separate recommendations to correct these weaknesses ( <a href="#">GAO-05-26R</a> ). We will review the impact of IRS's actions and will continue to review IRS's release of tax liens as part of our fiscal year 2005 financial audit.



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15	01-12	For (1) IRS's Automated Underreporter and Combined Annual Wage Reporting programs, (2) screening and examination of Earned Income Tax Credit claims, and (3) identifying and collecting previously disbursed improper refunds, use the best available information to develop reliable cost-benefit data to estimate the tax revenue collected by, and the amount of improper refunds returned to, IRS for each dollar spent pursuing these outstanding amounts. These data would include (1) an estimate of the full cost incurred by IRS in performing each of these efforts, including the salaries and benefits of all staff involved, as well as any related nonpersonnel costs, such as supplies and utilities and (2) the actual amount (a) collected on tax amounts assessed and (b) recovered on improper refunds disbursed. (long-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Open. During fiscal year 2004, IRS conducted risk assessments on programs with funding greater than \$10 million to implement the Improper Payments Information Act of 2002 (IPIA) PL 107-300 (Nov. 26, 2002). IRS determined that the Earned Income Tax Credit (EITC) was its only risk area. IRS has a comprehensive action plan to address the risk in this program including several measures being used to report on this program. IRS plans to continue to report to GAO separately on this program. For the Automated Underreporter (AUR) program, IRS completed several data analyses and identified reports during its risk assessment that reflect the amounts it assessed and collected on refund returns through the AUR process. Its assessment of the Combined Annual Wage Reporting program found that this program did not produce refunds that would warrant further analysis and study. In addition, IRS is developing cost data to consider in making informed resource allocation decisions for all major programs. The cost module of the IFS, Release 1, was implemented on November 10, 2004; however, full cost accounting will not be realized until future IFS releases are implemented. At present, future releases are being reevaluated based on funding availability and have been delayed or placed on indefinite hold.	Open. We will continue to monitor IRS's progress in implementing the IFS cost accounting module and loading it with appropriate cost information.

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16	01-15	Ensure that all IRS units receiving collections have consistent policies and procedures to safeguard and account for cash receipts. (short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Closed. Multidisciplinary teams composed of management from Mission Assurance and Security Services, Information Services, and Agency-Wide Shared Services will continue to work with local staff to ensure consistent, ongoing implementation of policies and procedures. In April 2003, IRM 5.1.2 was revised with new subsections, including: Timeliness of Remittances and Physical Security Controls over Remittances.	Closed. We verified that the IRM sections applicable to field offices, TACs, and SPCs contained consistent policies and procedures to safeguard and account for cash receipts.
17	01-17	Develop a subsidiary ledger for leasehold improvements and implement procedures to record leasehold improvement costs as they occur. (long-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Open. In IFS Release 1, implemented on November 10, 2004, P&E and leasehold improvements are recorded as assets when purchased. However, amortization will remain a manual process. The ability to tie the detailed physical asset information and a fully integrated system with subsidiary records will not be available until the Asset Management module is implemented. At present, all future releases are being reevaluated based on funding availability and have been delayed or placed on indefinite hold.	Open. IRS implemented the first release of the new IFS on November 10, 2004, which will allow recording of leasehold improvements as assets when purchased. However, implementation of a property asset module that is intended to generate detailed records for P&E that will reconcile to the financial records is being deferred indefinitely due to funding constraints. We will continue to monitor IRS's progress in implementing subsequent IFS releases and the property asset module.
18	01-18	Implement procedures and controls to ensure that expenditures for P&E are charged to the correct accounting codes to provide reliable records for expenditures as a basis of extracting the costs for major systems and leasehold improvements. (short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management (GAO-01-42, Nov. 17, 2000)</i>	Closed. In IFS Release 1, implemented on November 10, 2004, P&E and leasehold improvements are posted to the correct accounting code at the time of purchase. IRS has improved the definitions of P&E and has provided guidance on appropriate coding classifications to end users. Routine control reviews have been established to ensure the accuracy and appropriate coding classifications.	Open. IRS implemented the first release of the new IFS on November 10, 2004, which will incorporate procedures that will allow IRS to record P&E additions as they occur. We will review the effectiveness of these procedures during our fiscal year 2005 audit.

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19	01-21	Consolidate and update the P&E policies and procedures currently documented in various handbooks and policy memorandums into a comprehensive document that personnel responsible for maintaining inventory records can use as a reference. (short-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> ( <a href="#">GAO-01-42</a> , Nov. 17, 2000)	Closed. IRS has published procedures for all property management in the IRM. Policies and procedures pertaining to the property management of Information Technology (IT) assets are provided in IRM 2.14.1–Information Technology Asset Management. Policies and procedures for non-IT assets were published on January 1, 2005, in IRM 1.14.4–Personal Property Management. The IRM is now the one source that provides authoritative guidance for the management of all property.	Closed. IRS has effectively consolidated and published procedures for all property management in the IRM.

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20	01-33	Establish policies and procedures to ensure that all administrative and, to the extent possible, custodial transactions, are promptly recorded in the general ledger, preferably within 30 days of the transaction. (long-term)	<i>Internal Revenue Service: Recommendations to Improve Financial and Operational Management</i> (GAO-01-42, Nov. 17, 2000)	Closed. Regarding administrative transactions, IRS has successfully implemented its monthly nonpayroll expense accruals initiative. For custodial transactions, IRS records its receipts and refund transactions into IRACS within 30 days of the transaction. IRS also records the assessed portion of its unpaid assessment balance in total within 30 days based on the transactions that have posted to the taxpayer accounts. Each month and within 3 days of the closing of the month IRS estimates its taxes receivable balance, and the net taxes receivable balance, by applying the error rates and rates of collection produced for the year-end financial statements to each month's taxes receivable inventory. Steps to develop a subsidiary ledger to accurately and promptly identify, classify, track, and report all IRS unpaid assessments by amount and taxpayer and distinguish those that represent taxes receivable are being addressed in recommendation 99-3.	Closed. We confirmed the improvements IRS made in accounting for its administrative and custodial transactions.

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21	01-39	Develop a mechanism to track and report the actual costs associated with reimbursable activities. (long-term)	<i>Management Letter: Improvements Needed in IRS' Accounting Procedures and Internal Controls</i> (GAO-01-880R, July 30, 2001)	Open. IRS has developed guidance for costing reimbursable agreements, which includes instructions on tracking labor. IFS Release 1, implemented on November 10, 2004, includes a cost module that will interface with program area management information systems. Full cost accounting will not be realized until future releases, such as Work Management, are implemented. Actions will be initiated in fiscal year 2006 or fiscal year 2007 to begin gathering the real cost of certain reimbursable projects. Future releases are being evaluated based on funding availability and all future releases have been delayed or placed on indefinite hold.	Open. We confirmed that IRS completed procedures for costing reimbursable agreements that provides the basic framework for the accumulation of both direct and indirect costs at the necessary level of detail. IRS plans to implement these procedures over several years as it phases in various program area management information systems that will provide critical information to its new cost accounting system. However, as indicated by IRS, these systems have been placed on indefinite hold. We will continue to monitor IRS's efforts to fully implement its cost accounting system and, once it has been fully implemented, evaluate the effectiveness of IRS procedures for developing cost information for its reimbursable agreements.
22	02-01	Implement policies and procedures to record capitalizable acquisition costs for P&E, capital leases, leasehold improvements, and major systems in the appropriate P&E general ledger accounts as transactions occur. (long-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Closed. In IFS Release 1, implemented on November 10, 2004, property and equipment are recorded as assets when purchased.	Open. IRS implemented the first release of the new IFS on November 10, 2004, which will allow IRS to record P&E additions in the appropriate general ledger accounts as they occur. We will evaluate the effectiveness of the system for recording capitalizable costs during our fiscal year 2005 audit.

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23	02-08	Implement policies and procedures to require that all employees itemize on their time cards the time spent on specific projects. (long-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management (GAO-02-35, Oct. 19, 2001)</i>	Open. IRS agreed with the objective of this recommendation, which is to allow it to collect and report the full payroll costs associated with its activities. While IRS indicated that most of its employees already itemize their time charges in functional tracking systems, it has acknowledged that full implementation of the IFS cost accounting module is required to close this recommendation. IFS Release 1, implemented on November 10, 2004, includes requirements for a cost module that will be interfaced with program area management information systems. Both direct and indirect resource cost data can be linked to the budget process and the strategic planning goals of all business units. This will help move IRS forward in transitioning to a performance-based organization. Full cost accounting will not be realized until future releases, such as Work Management, are implemented. At present these releases are being reevaluated based on funding availability and all future releases have been delayed or placed on indefinite hold.	Open. We confirmed that IRS employees use functional tracking (workload management) systems to itemize and track their time charges. However, this recommendation remains open because its objective is to allow IRS to collect and report the full payroll costs associated with its activities. During our fiscal year 2004 audit, we continued to find that the functional tracking systems are insufficient for this purpose because they do not interface with each other or the general ledger to allow management to use them to readily accumulate the time charged to specific projects. The new cost accounting module of IFS may be able to track IRS's costs at the activity level and, thus, help to address the recommendation. However, IRS's plans to fully implement cost accounting, which are expected to require several years to execute, are currently on hold. We will continue to monitor IRS's progress in implementing the IFS cost accounting module.

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24	02-09	Implement policies and procedures to allocate nonpersonnel costs to programs and activities on a routine basis throughout the year. (long-term)	<i>Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management</i> (GAO-02-35, Oct. 19, 2001)	Open. IRS agreed with this recommendation and indicated plans to address this issue with the cost accounting module that will be part of IFS. IFS Release 1, implemented on November 10, 2004, includes a cost module that is interfaced with program area management information systems. Both direct and indirect resource cost data can be linked to the budget process and the strategic planning goals of all business units. This helps move IRS forward in transitioning to a performance-based organization. Full cost accounting will not be realized until future releases, such as Work Management, are implemented. At present, these releases are being evaluated based on funding availability and all future releases have been delayed or placed on indefinite hold.	Open. We confirmed that IRS's plans include requirements that meet the objectives of this recommendation; however, IRS has delayed or indefinitely placed on hold the implementation of these requirements. IRS's plans to implement these requirements were expected to be executed over several years as IRS phases in various program area information systems that will provide critical information to the cost accounting system. We will continue to monitor IRS's efforts to address this issue.
25	02-12	Develop policies and procedures to require that field offices post signs in the most visible locations to remind taxpayers to obtain receipts for payments. (short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Closed. IRS issued the Field Assistance IRM in June 2003, which lists the required signs for each taxpayer assistance center (TAC). Signs to remind taxpayers to obtain a receipt for payment are posted in the most visible locations in each TAC office as required by IRM 21.3.4.3(4). IRS monitored adherence to these procedures during operational reviews of the TACs in fiscal years 2003 and 2004 and found signs were properly posted. Additionally, periodic reviews and verification of the requirement are required, at a minimum, during the annual filing season readiness operational review.	Closed. During our fiscal year 2004 audit, we verified that IRS had implemented policies and procedures requiring field offices to post signs reminding taxpayers to obtain receipts for payments. At the two field offices we visited, we observed that signs containing the required information had been posted in highly visible locations.

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26	02-14	Develop policies and procedures to require that IRS and lockbox employees performing final candling record receipts in a control log at the time of discovery, recording at a minimum the total number of payments found, the amount of each payment, and the taxpayer who submitted the payment. (short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls (GAO-02-746R, July 18, 2002)</i>	Closed. The 2005 Lockbox Processing Guidelines (LPG) (3.2.8.3), Documentation of Items Found in Candling (Form 9535), directs the responsible manager to initial Form 9535 every day for each shift. An entry must be made each shift, whether or not items have been found. A manager will initial Form 9535 to validate all of the following: All available information is correctly entered. Items found have been reconciled with Form 9535 entries. Items have been correctly categorized as processable or unprocessable. All processable work has been cleared after each shift, i.e., the work has been put back into the stream of work. The received date has been entered correctly. Only Form 9535 will be used for documenting items found during candling. In addition, during June 2004 a new candling log, Form 13592, was created. Procedures were also added to IRM 3.10.72 for recording items found during final candling using the new form. In January 2005, the submission processing director's office contacted each SPC to address deficiencies identified by GAO in 2004 regarding final candling. Local management was asked to discuss the deficiencies with their employees on a regular basis and ensure corrective action is taken. This issue will be reviewed monthly by the campus security review team and findings will be shared with the appropriate directors for additional actions, if required.	Open. During our fiscal year 2004 audit visits to four lockbox banks, we found no weaknesses in recording information about discovered receipts in candling logs. However, at two of the SPCs we visited, we found that candling staff did not immediately record in a control log the items found during final candling. In addition, candling staff at one of the SPCs did not capture the minimum information as required by the updated guidance. IRS's reported actions to strengthen its controls for items found during candling at the SPCs occurred subsequent to our fiscal year 2004 fieldwork. We will monitor the effectiveness of IRS's updated policies and procedures during our fiscal year 2005 audit.



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27	02-15	Develop policies and procedures to require that IRS and lockbox managers or designated officials reconcile logs of payments found during final candling to the related receipts and documents. (short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls (GAO-02-746R, July 18, 2002)</i>	Closed. The 2003 LPG 3.2.8.1(1) directs the responsible manager to validate that the information was correctly entered on Form 9535 for every shift worked. The 2003 Extracting, Sorting & Numbering IRM, 3.10.72.6.2(1) states, "management shall immediately reconcile the discovered remittances with the final candling log." The 2003 LPG was updated January 31, 2003. IRM 3.10.72 has been updated with procedures that direct the responsible manager to validate that all information was correctly entered on Form 13592. In January 2005, the Submission Processing Director's Office contacted each SPC to address deficiencies identified by GAO in 2004 regarding reconciliation of the candling log. Local management was asked to discuss the deficiencies with their employees on a regular basis and ensure corrective action is taken. This issue will be reviewed monthly by the campus security review team and findings will be shared with the appropriate director for additional action, if required.	Closed. We verified that the LPG directs lockbox managers to validate Form 9535 daily and that the updated IRM requires that management initial the log to validate that all available information is correctly entered and ensure that all remittances listed in the log are brought to the deposit function on a daily basis. We found no instances in which IRS or lockbox managers were not performing the required reconciliations during our fiscal year 2004 audit.

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28	02-16	Ensure that field office management complies with existing receipt control policies that require a segregation of duties between employees who prepare control logs for walk-in payments and employees who reconcile the control logs to the actual payments. (short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls (GAO-02-746R, July 18, 2002)</i>	Closed. IRM procedures provide for a reconciliation process. The procedures require the employee who prepared Form 795, Daily Report of Collection Activity, to reconcile all receipts with the payment information on Form 795 before forwarding to the SPC. The SPC also performs a reconciliation by placing a distinct mark on Form 795 to indicate the documents listed were received. The SPC returns the Form 795 to the manager acknowledging receipt of Form 795 and all attachments. These procedures are consistent with procedures followed by other IRS functions.	Open. During our fiscal year 2004 audit, we found that IRS's procedures relating to the control and reconciliation of receipts at its field offices do not provide for segregation of duties between those employees who prepare the Form 795 and those who reconcile the receipts prior to sending them to the SPC. We found that the employees who posted receipts to the log also reconciled the log at both of the field offices we visited, including the TACs.
29	02-18	Work with the National Finance Center (NFC) to resolve the technical limitations that exist within the Security Entry and Tracking System (SETS) database and continue to periodically review SETS data to detect and correct errors. (short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls (GAO-02-746R, July 18, 2002)</i>	Closed. NFC is in the process of upgrading the SETS application to a Web version, which it anticipates deploying in 6 to 9 months. Treasury has requested that NFC include IRS as a participant in the design and development sessions. In the interim, NFC will continue to address any problems reported by IRS.	Open. We will continue to monitor IRS's actions in addressing this recommendation during our fiscal year 2005 audit.

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30	02-20	Establish procedures to track the release of liens up to the point of delivery to the local jurisdiction to ensure liens are released timely to avoid unduly burdening taxpayers once they have satisfied their tax liability. (short-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls (GAO-02-746R, July 18, 2002)</i>	Closed. IRS issued a memorandum dated January 28, 2003, with instructions for tracking when the certificates of lien release leave its immediate control. Certificates must be generated at least weekly. Based on the results of the 2003 audit, IRS drafted a detailed action plan for lien release issues, which includes operational reviews. The new procedures call for Automated Lien System units to date-stamp a duplicate copy of the lien release-billing voucher so that IRS has actual knowledge of when lien releases are no longer under its direct control. This was issued in the Internal Revenue Manual on October 1, 2003. Certificates must be generated weekly. A memo was also issued January 28, 2003, on Payment Compliance, which was reinforced via e-mail on April 1, 2004, to territory managers in case processing, emphasizing that the requirements and the procedures have been incorporated into IRM 5.12.6.4.1. IRS completed lien processing site reviews in 2004 and verified implementation.	Closed. During our fiscal year 2004 audit, we verified that IRS substantially implemented the new procedures.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
31	02-23	Develop and implement procedures to ensure that procurement award and requisition numbers recorded on property records are complete, accurate, and linked to the accounting records. (long-term)	<i>Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls</i> (GAO-02-746R, July 18, 2002)	Closed. IRS has developed and implemented procedures that ensure award and requisition numbers are accurately recorded on property records and are linked to the accounting records. For example, IRS implemented an Electronic Packing Slip initiative with vendors. Using an automated transfer method, the vendors provide electronic data, such as procurement award and requisition numbers, for all equipment that is shipped. IRS updates its inventory records with this information and establishes skeletal records before the equipment is received at IRS locations.	Closed. IRS continued to work with vendors and improved the process of using electronic packing slips to ensure that property records are complete and linked to the accounting records. During our fiscal year 2004 audit, we noted improvements in the accuracy of acquisitions recorded in the P&E inventory records and linked to the accounting records.
32	03-01	Document IRS's oversight roles and responsibilities in agency policy and procedure manuals and determine appropriate level of IRS oversight of lockbox sites throughout the year, particularly during peak processing periods. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. The Memorandum of Understanding (MOU) between the Financial Management Service (FMS) and IRS, detailing the roles and responsibilities of each organization in administering the IRS Lockbox Program, was signed April 30, 2003. In addition, IRM 3.0.230, Lockbox Processing Procedures, and the LPG (2003 and 2004) outline the duties and responsibilities of FMS and IRS.	Closed. During our fiscal year 2004 audit, we confirmed that IRS's MOU was incorporated into an update of the IRM and in the 2004 LPG.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
33	03-02	Establish and document guidelines and procedures in policy and procedure manuals for implementing the new penalty provision for lockbox banks to reimburse the government for direct costs incurred in correcting errors made by lockbox banks. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> ( <a href="#">GAO-03-299</a> , Jan. 15, 2003)	Closed. IRS/FMS prepared a reimbursement process. The procedures include the use of a special Lockbox Program code to delineate IRS rework costs as a result of errors made by the lockbox sites. The Lockbox Policy Reimbursement procedures are included in the 2005 Lockbox Processing Guidelines under LPG 2.1.9 and 2005 Lockbox Processing Procedures under IRM 3.0.230.9.3.	Open. During our fiscal year 2004 audit, we confirmed that IRS had incorporated reimbursement procedures in the 2004 LPG. IRS's update to the LPG and IRM occurred subsequent to our fiscal year 2004 fieldwork. We will continue to evaluate IRS's planned corrective actions during our fiscal year 2005 audit.
34	03-04	Establish and document a process in IRS policy and procedure manuals to ensure that lockbox bank management formally responds to IRS oversight findings and recommendations promptly and that corrective actions taken by lockbox bank management are appropriate. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> ( <a href="#">GAO-03-299</a> , Jan. 15, 2003)	Closed. The Security MOU, completed on April 1, 2003, documents the roles and responsibilities of the Security Review Team, which is comprised of FMS and IRS security experts. IRS documents its findings, which are sent to FMS to be included in a final report to the banks. This report covers findings, recommendations, and due dates for all corrective actions. IRS receives a copy of the final report. IRS's oversight roles and responsibilities can be found in the 2005 LPG under 2.1.2.2, Revenue and Deposit Branch, Lockbox Policy and Procedures (LPP), LPG 2.1.2.3, Revenue and Deposit Branch, Lockbox Field Operations (LFO), and the Lockbox IRM 3.0.230.	Closed. During fiscal year 2004, we verified that IRS outlined the oversight duties and responsibilities for FMS and IRS in the IRM and in the 2004 LPG. In addition, IRS also documented the oversight role and responsibilities in the 2005 LPG.

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Count	No.	Recommendation	Source report	Status of recommendations	
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35	03-06	Ensure that the results of on-site compliance reviews are completed and promptly submitted to IRS's National Office. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. Lockbox banks underwent security reviews in 2003 and 2004. The banks were required to respond officially to the items identified in the security report. Security reviews were based on the lockbox sites' compliance with the LPG. IRS is represented on the security review team, provides input related to the review to FMS, and then receives a copy of the final response sent by FMS to the lockbox bank. Reviews were submitted timely to the National Office. Document Collection Instrument (DCI) reviews were examined for completeness and accuracy.	Closed. During our fiscal year 2004 audit, we reviewed the results of IRS and FMS April peak-season security reviews, captured in joint IRS/FMS consolidated trip reports for each lockbox site, and concluded these reviews were timely completed and submitted to IRS's National Office.
36	03-07	Revise the guidance used for compliance reviews so it requires reviewers to (1) determine whether lockbox contractors, such as couriers, have completed and obtained favorable results on IRS fingerprint checks and (2) obtain and review all relevant logs for cash payments and candled items to ensure that all payments are accounted for. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. IRS updated the security check sheet to instruct reviewers to determine whether contractors have completed and obtained favorable fingerprint results and to review all relevant logs for cash payments and candling logs. In addition, IRS and FMS personnel review all contractor (including courier) documentation during peak filing season. Lockbox coordinators are responsible for reviewing the candling log and cash log.	Open. We determined during our fiscal year 2004 visits to four lockbox banks that the lockbox coordinator's on-site review check sheet included the requirement to ensure that the cash and candling logs are being kept and updated daily. Further, we found that management at the four lockbox banks we visited performed and adequately documented candling reviews. However, the review check sheet does not include the requirement to ensure that contractors have completed and obtained favorable results on IRS fingerprint checks. In addition, we found that a contractor at two of the lockbox banks we visited did not have the required background investigation and was incorrectly being granted unescorted access to the processing area.

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37	03-08	Assign individuals, other than the lockbox coordinators, responsibility for completing on-site performance reviews. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. IRS retains the position that the lockbox coordinators were specifically hired to conduct the performance reviews and represent IRS's interests during on-site peak processing. During fiscal year 2004, the on-site administrative and procedural DCIs were standardized and prioritized. Conference calls were routinely conducted with lockbox field staff to address any consistency issues or concerns. Backup field coordinators have been designated and cross-trained. Newly implemented performance measures concentrate heavily on the on-site and SPC DCI reviews, the combination of which effectively serves as a system of checks and balances.	Open. Some of IRS's procedures were implemented subsequent to our fiscal year 2004 peak-season site visits. Although we did not identify any specific issues relating to the lockbox coordinators' completion of the on-site performance reviews at the lockbox banks during our 2004 site visits, we will further evaluate IRS's process during our fiscal year 2005 audit.
38	03-10	Require lockbox management to ensure that guards are responsive to alarms and that IRS takes steps to monitor adherence to this requirement. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. The requirement to ensure that door alarms are responded to by the guards was previously established in the 2002 LPG issued January 1, 2002. IRS and FMS security teams observe the guards responding to door alarms, etc., by performing tests during on-site security reviews: documented in Section 2.4 of 2003 (revised April 8, 2003) and 2004 LPG (issued December 1, 2003).	Open. During our fiscal year 2004 audit, we verified that the LPG required lockbox bank management to ensure that guards responded to alarms and that IRS was continuing to monitor the banks' adherence to this requirement. However, we continued to find weaknesses in the guards' responsiveness to alarms at two of the four lockbox banks we visited. At one lockbox bank, we observed that guards did not respond to door alarms. At another lockbox bank, the guards were not able to locate where the alarms had originated.

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39	03-14	Require lockbox management to ensure that surveillance cameras and monitors are installed in ways that allow for effective, real-time monitoring of lockbox operations and that IRS take steps to monitor adherence to this requirement. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> ( <a href="#">GAO-03-299</a> , Jan. 15, 2003)	Closed. Surveillance cameras have been installed at all lockbox sites. Security review teams continually monitor compliance. These procedures were updated in Section 2.4.1 of the 2003 (revised April 8, 2003) and the 2004 LPG, issued December 1, 2003. The 2005 LPG, under LPG 4.1.4.1.4, directs the documentation of the role and responsibilities for closed-circuit television (CCTV) monitoring by security guards. In order to help ensure compliance to LPG requirements, an IRS and FMS task group has developed a performance measures process to include a category for security and internal control to be piloted January-September 2005, and to be implemented October 2005. This process will use a DCI check sheet that will list as line items the requirements as outlined in the LPG. It will be used as a tool to identify varying levels of performance and provide incentives and disincentives based on those levels of performance. This will help ensure compliance with the requirements as set forth in the LPG and will help IRS identify if and where improvements are necessary.	Closed. During our fiscal year 2004 audit, we found no instances in which a bank did not have surveillance cameras and monitors installed that allowed for effective, real-time monitoring of receipt processing operations at the four lockbox banks we visited.



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40	03-15	Require lockbox management to ensure that envelopes are properly candled and that IRS takes steps to monitor adherence to this requirement. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> ( <a href="#">GAO-03-299</a> , Jan. 15, 2003)	Closed. The 2005 LPG 3.2.8.3, Documentation of Items Found in Candling (Form 9535) (1), was revised to require the responsible manager to initial the Form 9535 every day for each shift. An entry must be made each shift, whether or not items have been found. A manager will initial Form 9535 to validate all of the following: All available information is correctly entered. Items found have been reconciled with Form 9535 entries. Items have been correctly categorized as processable or unprocessable. All processable work has been cleared after each shift, i.e., the work has been put back into the stream of work. The received date has been correctly entered. Additionally, under LPG 3.2.8, IRS revised the requirement to state that envelopes opened manually or by the OPEX mail machine must be opened on three or more sides and are required to be candled once; all others must be candled twice. In order to help ensure compliance to the LPG requirements, an IRS and FMS task group has developed a performance measures process to include a category for security and internal control that will be implemented in October 2005. This process will use a DCI check sheet that will list by line item the requirements as outlined in the LPG. It will be used as a tool to identify varying levels of performance and provide incentives and disincentives based on those levels of performance. This will help ensure compliance with the LPG requirements.	Open. During our fiscal year 2004 audit visits, we found one lockbox bank did not perform adequate candling of items opened automatically by an OPEX machine. This machine did not use a light source and no other candling was performed on envelopes processed by it. Furthermore, the 2004 LPG candling requirement was unclear as to the number of candlings required in this situation. In addition, we observed some manual candling staff were not adequately viewing envelopes as they were passed over a light source. Some of IRS's corrective actions, including revising the 2005 LPG to address candling requirements for specific types of mail, occurred subsequent to our fiscal year 2004 fieldwork. In addition, IRS reports that a new performance measurement process will be implemented in October 2005 to ensure compliance with these new LPG requirements. To the extent IRS has implemented its new requirements, we will continue to evaluate IRS's corrective actions during our fiscal year 2005 audit.

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41	03-16	Require lockbox management to perform and adequately document candling reviews and that IRS take steps to monitor adherence to this requirement. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. The 2005 LPG 3.2.8.3, Documentation of Items Found in Candling (Form 9535) (1), was revised to require the responsible manager to initial the Form 9535 every day for each shift. An entry must be made each shift, whether or not items have been found. A manager will initial Form 9535 to validate all of the following: All available information is correctly entered. Items found have been reconciled with Form 9535 entries. Items have been correctly categorized as processable or unprocessable. All processable work has been cleared after each shift, i.e., the work has been put back into the stream of work. The received date has been correctly entered. Additionally, under LPG 3.2.8, IRS revised the requirement to state that envelopes opened manually or by OPEX mail machine that must be candled on three or more sides are required to be candled once; all others must be candled twice. In order to help ensure compliance to the LPG requirements, an IRS and FMS task group has developed a performance measures process to include a category for security and internal control that will be implemented in October 2005. This process will use a DCI check sheet that will list by line item the requirements as outlined in the LPG. It will be used as a tool to identify varying levels of performance and provide incentives and disincentives based on those levels of performance. This will help ensure compliance with the LPG requirements.	Closed. During our fiscal year 2004 audit, we found that management at the four lockbox banks we visited performed and adequately documented candling reviews.

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42	03-17	Require that returned refund checks are restrictively endorsed immediately upon extraction and that IRS take steps to monitor adherence to this requirement. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> ( <a href="#">GAO-03-299</a> , Jan. 15, 2003)	Closed. The requirement to ensure that returned refund checks are restrictively endorsed immediately upon extraction was previously listed in Section 3.2.1 of the 2002 LPG issued January 1, 2002, as well as the 2003 (revised April 8, 2003) and 2004 LPG, issued December 1, 2003. During the on-site security reviews, IRS and FMS security teams reviewed adherence to this requirement. Additionally, adherence to this requirement is evaluated during the daily SPC quality reviews.	Open. During our fiscal year 2004 audit, we verified that the LPG required that returned refund checks be restrictively endorsed immediately upon extraction and that IRS monitor adherence to this requirement. However, IRS extraction staff at one of the four lockbox banks we visited informed us that returned refund checks were processed without immediately being stamped as nonnegotiable.
43	03-20	Revise the LPG to require that before lockbox bank couriers receive access to taxpayer data and receipts they undergo and receive favorable results on background investigations that are deemed appropriate by IRS and are consistent across lockbox banks. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> ( <a href="#">GAO-03-299</a> , Jan. 15, 2003)	Closed. On September 23, 2003, at the annual lockbox conference, the National Background Investigation Center (NBIC) presented the new background investigation requirements for permanent lockbox bank employees, couriers, and guards. The new procedures require a moderate risk National Agency Check with Law and Credit (NACLC) investigation on all permanent bank employees, couriers, and guards. The banks were given an implementation schedule beginning October 1, 2003, with full implementation by April 1, 2004. On December 15, 2003, the Lockbox Project Office sent out a Lockbox Electronic Bulletin with the 2004 LPG containing the revised background investigation requirements under LPG 4.2, Personnel Security and LPG 5.1.2(5).	Closed. During our fiscal year 2004 audit, we verified that the LPG had been revised to require that before lockbox bank couriers receive access to taxpayer data and receipts they undergo and receive favorable results on background investigations. We found no instances where couriers received access to taxpayer data and receipts without having undergone and received favorable results on background investigations.

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44	03-21	Revise the LPG to require that before permanent lockbox bank employees receive access to taxpayer data and receipts they undergo and receive favorable results on background investigations that are deemed appropriate by IRS and are consistent across lockbox banks. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. On September 23, 2003, at the annual lockbox conference, NBIC presented the new background investigation requirements for permanent lockbox bank employees, couriers, and guards. The new procedures require a moderate risk NACLCL investigation on all permanent bank employees, couriers, and guards. The banks were given an implementation schedule beginning October 1, 2003, with full implementation by April 1, 2004. On December 15, 2003, the Lockbox Project Office sent out a Lockbox Electronic Bulletin with the 2004 LPG containing the revised background investigation requirements under LPG 4.2, Personnel Security and LPG 5.1.2(5).	Closed. We verified that the 2004 LPG was revised to require all permanent employees assigned to a lockbox bank to have a NACLCL investigation. We did not identify any instances during our fiscal year 2004 audit in which permanent employees with unescorted access to the processing area did not have a NACLCL background investigation.
45	03-24	Revise the LPG to require that during candling, lockbox bank employees record which machines and which extraction clerks missed items. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. On April 2, 2003, IRS instructed the banks to change the quality review process for candling. The new procedures require that banks track which machines and which employees missed items. The procedures were effective April 14, 2003, and included in the 2004 LPG, issued December 1, 2003.	Closed. During our fiscal year 2004 audit, we verified that procedures requiring that lockbox banks track which machines and which employees missed items were included in the 2004 LPG. In our visits to four lockbox banks, we did not identify any instances where lockbox bank employees did not record which machines and which extraction clerks missed items during candling.

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46	03-25	Revise the LPG to require that lockbox bank management reconcile items found during candling to the candling records. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. The 2005 LPG 3.2.8.3, Documentation of Items Found in Candling (Form 9535) (1), was revised to require the responsible manager to initial the Form 9535 every day for each shift. An entry must be made each shift, whether or not items have been found. A manager will initial Form 9535 to validate all of the following: All available information is correctly entered. Items found have been reconciled with Form 9535 entries. Items have been correctly categorized as processable or unprocessable. All processable work has been cleared after each shift, i.e., the work has been put back into the stream of work. The received date has been correctly entered. Note: Only Form 9535 will be used for documenting items found in candling.	Closed. During our fiscal year 2004 audit, we verified that the 2004 LPG had been updated to require that lockbox bank management reconcile items found during candling to the candling records. Per IRS, additional detailed instructions were included in the fiscal year 2005 LPG. We did not identify any instances during our fiscal year 2004 audit visits to four lockbox banks where lockbox bank management did not reconcile items found during candling to the candling records.
47	03-26	Revise the LPG to require that lockbox bank management reconcile cash payments to internal cash logs and the cash logs they provide to IRS. (short-term)	<i>IRS Lockbox Banks: More Effective Oversight, Stronger Controls, and Further Study of Costs and Benefits Are Needed</i> (GAO-03-299, Jan. 15, 2003)	Closed. The 2005 LPG has been revised under LPG 3.3.2.15 as follows: Discovered Remittances–Cash. (1) All employees identifying discovered remittances that are cash or other items of value must immediately notify their manager or designee. A manager or designee must be available at all times during business hours to receive and immediately log each discovered cash remittance on Form 9535; (2) All cash payments received must be immediately logged on a Form 9535 that is dedicated to cash-only entries.	Closed. During our fiscal year 2004 audit, we verified that the 2004 LPG had been updated to require that lockbox bank management reconcile cash payments to internal cash logs and the cash logs they provide to IRS. Per IRS, additional detailed instructions were included in the fiscal year 2005 LPG. We did not identify any instances during our fiscal year 2004 visits to four lockbox banks where cash payments were not reconciled to the internal cash logs that lockbox bank management provided to IRS.

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48	03-29	Confirm with FMS that IRS's requirements for background and fingerprint checks for courier services are met regardless of whether IRS or FMS negotiates the service agreement. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-03-562R</a> , May 20, 2003)	Closed. On October 7, 2002, FMS issued an amendment to the Courier MOU, which included the requirement that all courier employees satisfy the basic investigation including a Federal Bureau of Investigation fingerprint and name check. All 10 IRS campuses now have a contact responsible for submitting paperwork to NBIC and ensuring courier employees are granted clearance. On April 10, 2003, IRS requested that NBIC provide a monthly status report of the campus compliance to the Wage and Investment Division. The 2004 LPG (issued December 1, 2003) includes Guidelines for Background Investigations under Personnel Security in Section 4.2. As of December 31, 2004, all parties are adhering to these requirements.	Open. During our fiscal year 2004 audit, we reviewed FMS- and IRS-negotiated courier agreements for the SPCs and found that the agreement at one SPC did not contain IRS's requirements for background and fingerprint checks for courier services. We will evaluate the compliance of the 2005 courier agreements during our fiscal year 2005 audit.

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49	03-30	Establish procedures to verify that courier services are adhering to the standards established for them by IRS, including the requirement that the courier service have insurance coverage. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-03-562R</a> , May 20, 2003)	Closed. The Security Review Team reviews monthly compliance with the courier requirements. For the five campuses where IRS holds the courier contract, the Security Review Team was required to verify the campus has a valid insurance certificate valued at \$1 million. For the five campuses with FMS-negotiated agreements, FMS drafted a memorandum to the financial institutes advising them to regularly provide a copy of the insurance certificates to IRS. The 2003 LPG included this procedure in Section 2.8.4.1. The campus now has a bonded courier who is delivering the deposits to the depository on a daily basis. All procedures are in place to provide a copy of the \$1 million insurance binder to all campuses and headquarters on an annual basis.	Closed. During our fiscal year 2004 audit, we determined that IRS had established procedures to verify that courier services are adhering to the standards established for them by IRS, including the requirement that the courier service have insurance coverage. This was also included in the 2004 LPG. We found no instances in which the required proof of insurance was not available during our fiscal year 2004 visits to four SPCs and four lockbox banks.

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50	03-31	Enforce consistent implementation of policy limiting personal belongings in receipt processing areas at service center campuses. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-03-562R</a> , May 20, 2003)	Closed. On February 6, 2004, IRS issued information alert W&I-IA-2002-63-2004 specifying the items that are prohibited from the secure receipt processing areas and requiring that employees use clear plastic bags to transport small items not carried on their person in and out of the secure areas. First-line managers or a designated representative conduct, at minimum, monthly random reviews of employee compliance with all security policies as they relate to personal belongings in the secure receipt processing areas. In addition, Campus Security Review teams conduct monthly reviews to ensure compliance with these procedures. These procedures were added via information alerts to Internal Revenue manuals pertaining to the secure receipt processing areas.	Closed. We did not find any instances of inappropriate personal belongings in receipt processing areas at the four SPCs we visited during our fiscal year 2004 audit.
51	03-32	Prohibit the storage of employees' personal belongings with cash payments and receipts at IRS's TACs. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-03-562R</a> , May 20, 2003)	Closed. IRM procedures were revised during fiscal year 2004 with specific guidelines prohibiting the storage of personal belongings under the same locking device with taxpayer data. IRS monitored adherence to IRM procedures during operational reviews conducted in fiscal year 2004. No discrepancies were identified.	Open. During our fiscal year 2004 audit, we verified that IRS's guidelines prohibiting the storage of personal belongings with cash payments and receipts at IRS's TACs were included in IRM. However, during our visits to two TACs, we continued to find weakness in adherence to these guidelines. At one TAC, we found personal belongings being stored in filing cabinets directly adjacent to the file cabinet storing receipts and in drawers located directly underneath the TAC counters. At another TAC, we found a Form 809 book being stored with personal belongings.



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52	03-33	Revise candling procedures to specify the precise candling methods to be used based on the dimensions of the mail processed and the extraction method used for both the first and the final candling. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R, May 20, 2003)	Closed. On May 28, 2003, the IRM candling procedures were updated with an information alert (W&I-IA-2002-730) to specify precise first and final candling methods based on dimensions of the mail and first and final candling. In January 2005, the Submission Processing Director's Office contacted each SPC to address deficiencies identified by GAO in 2004 regarding the revision of candling procedures. Local management was asked to discuss the deficiencies with their employees on a regular basis and ensure corrective action was taken. This issue will be reviewed monthly by the campus security review team and findings will be shared with the appropriate director for additional action, if required.	Open. During our fiscal year 2004 audit, we verified that IRS had revised candling procedures in the IRM to specify precise candling methods based on mail dimensions and the extraction method used for the first and final candling. However, during our fiscal year 2004 visits to two SPCs, we continued to find weaknesses in candling procedures. At one SPC, we found extractors improperly using the light source when candling items. Furthermore, in certain candling tables, the intensity of the light source was insufficient. In addition, not all items requiring opening on three sides were being so opened. At another SPC, we found that not all extractors had operational candling lights on their tingle tables and, thus, were not performing two candlings as required nor had these extractors been provided compensating instructions. Some of IRS's actions to address deficiencies in candling procedures occurred subsequent to our fiscal year 2004 fieldwork. We will continue to evaluate IRS's corrective actions during our fiscal year 2005 audit.

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53	03-34	Establish and implement procedures prohibiting a single employee from performing the final candling in a remote location. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R, May 20, 2003)	Closed. On May 28, 2003, the IRM candling procedures were updated with information alert (W&I-IA-2002-730) implementing procedures prohibiting a single employee from performing the final candling in a remote location. This requirement was also added to the 2004 revision of IRM 3.10.72. In January 2005, the Submission Processing Director's Office contacted each SPC to address deficiencies identified by GAO in 2004 regarding single employees performing final candling in a remote location. Local management was asked to discuss the deficiencies with their employees on a regular basis and ensure corrective action is taken. This issue will be reviewed monthly by the campus security review team and findings will be shared with the appropriate director for additional action, if required.	Open. During our fiscal year 2004 audit, we verified that IRS had established procedures prohibiting a single employee from performing the final candling in a remote location. However, at one SPC we visited, we observed that boxes stacked in the middle of the final candling room prevented employees from seeing each other's work area. The effect of this operation was similar to that of having a single employee performing final candling in a remote location. Some of IRS's actions to address deficiencies in this area occurred subsequent to our fiscal year 2004 fieldwork. We will continue to evaluate IRS's corrective actions during our fiscal year 2005 audit.

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54	03-36	Establish a mechanism to periodically review adherence to IRS's policy that payment of taxes in cash be accepted. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-03-562R, May 20, 2003)	Closed. IRS monitored adherence to the policy of accepting cash payments during operational reviews conducted in fiscal year 2004. No discrepancies were identified. The Director, Field Assistance, granted an exception to the requirement of accepting cash payments in some TACs with two or fewer persons. These are locations where the volume of cash payments received is minimal. TACs have agreements with other functions to accept cash payments or TACs will convert the cash payments into money orders at financial institutions nearby, making payments easy for the taxpayers. IRS revised the IRM in fiscal year 2004 to reflect these exceptions.	Closed. During our fiscal year 2004 audit, we found that IRS monitored adherence to its policy of accepting cash payments during operational reviews it conducted in fiscal year 2004 at the TACs we visited. We did not identify any issues with regard to IRS refusing to accept cash payments of taxes.
55	03-37	Develop and implement post-input review procedures to verify the accuracy of excise tax credit information in the master file. (short-term)	<i>Management Report: Improvements Needed in Controls over IRS's Excise Tax Certification Process</i> (GAO-03-687R, July 23, 2003)	Closed. In July 2003, the Cincinnati Compliance Campus implemented Program Analysis System reviews on Gasoline Wholesale Distributor/End User/Diesel claims submitted on Form 8849. In August 2003, the campus implemented and increased the responsibility for managers to review all work including fuel claims as part of their performance review for employees. In December 2003, excise taxes were included in the Embedded Quality Review System (EQRS) expansion rollout, and fuel claims were also included in this review. EQRS is performed by the employee's manager and is part of the employee's performance rating.	Closed. During our testing of sample items over the past 2 years, we found no significant data entry errors relating to excise tax credits. We also verified during our fiscal year 2004 audit that fuel claim reviews were being performed as part of the Embedded Quality Review System.

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56	03-38	Investigate why certification errors continue to go undetected through IRS's review procedures. (short-term)	<i>Management Report: Improvements Needed in Controls over IRS's Excise Tax Certification Process</i> ( <a href="#">GAO-03-687R</a> , July 23, 2003)	Closed. IRS reviewed existing written procedures for the certification process and determined that the procedures, if properly followed, were adequate. To ensure that the procedures were properly implemented, a new section chief was appointed. Also, in October 2003, IRS reiterated to management the importance of reviewing and understanding the certification process.	Closed. IRS's actions have resulted in improvements to the excise tax certification review process. In the past 2 years, we found no significant errors related to IRS's certification process that were not detected by IRS's review procedures.
57	03-39	Develop and implement an action plan to improve the certification review process. (short-term)	<i>Management Report: Improvements Needed in Controls over IRS's Excise Tax Certification Process</i> ( <a href="#">GAO-03-687R</a> , July 23, 2003)	Closed. IRS reviewed existing written procedures for the certification process and determined that the procedures, if properly followed, were adequate. To ensure that the procedures were properly implemented, a new section chief was appointed. Also, in October 2003, IRS reiterated to management the importance of reviewing and understanding the certification process.	Closed. IRS's actions have resulted in improvements to the excise tax certification review process. In the past 2 years, we found no significant errors related to IRS's certification process that were not detected by IRS's review procedures.

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58	03-40	Communicate in writing any potential changes in IRS's certification process to other Treasury entities that use the certification information, and obtain concurrence from these entities prior to implementing such changes. (short-term)	<i>Management Report: Improvements Needed in Controls over IRS's Excise Tax Certification Process (GAO-03-687R, July 23, 2003)</i>	Closed. MOU signed December 15, 2004, by the Chairman, Excise Tax Trust Fund Working Group. The IRS Treasury Excise Tax Trust Fund Working Group has established a process of recording minutes of the Working Group meetings in order to document issues related to trust fund certification procedures/processes and proposed or passed legislative changes impacting trust fund investments. Recording of minutes will be taken by a representative of Treasury member offices or bureaus on a rotating basis. Draft minutes will be shared with all participants for concurrence prior to final approval and distribution. IRS will discuss and make a presentation to advise the members of any changes to the trust fund certification process.	Open. We verified that the Treasury Excise Tax Trust Fund Working Group signed an MOU to establish a process for documenting issues related to IRS's trust fund certifications. We will review the effectiveness of this action during our fiscal year 2005 audit.
59	03-41	Implement procedures to annually identify excise taxpayers with the largest excise tax liabilities affecting the Highway Trust Fund and the Airport and Airway Trust Fund. (short-term)	<i>Management Report: Improvements Needed in Controls over IRS's Excise Tax Certification Process (GAO-03-687R, July 23, 2003)</i>	Closed. IRS has identified employer identification numbers (EINS) of the largest excise tax liabilities beginning with tax period September 2002. IRS identified the largest excise tax filers to both Cincinnati Submission Processing and Compliance campuses in August 2003. EINS will be updated annually using the September tax periods.	Closed. We verified that IRS has implemented procedures to identify taxpayers with the largest excise tax liabilities affecting the Highway Trust Fund and the Airport and Airway Trust Fund.

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60	03-42	Implement procedures to track the status of tax return filings for the largest payers of excise taxes and contact these taxpayers if the submission processing campus has not received their tax returns by 2 weeks after the due date. (short-term)	<i>Management Report: Improvements Needed in Controls over IRS's Excise Tax Certification Process</i> ( <a href="#">GAO-03-687R</a> , July 23, 2003)	Closed. IRS implemented procedures in March 2003 to track and monitor the top 100-plus list of excise taxpayers and to call them for tax return(s) when necessary prior to certification cutoff. The top 100-plus list is composed of taxpayers with the largest excise tax liability. These procedures have been validated by inclusion of all top 100-plus taxpayer returns in fiscal year 2004 certifications.	Closed. IRS has implemented procedures to track the status of tax return filings for the largest-dollar excise taxpayers and to contact these taxpayers for their returns when necessary prior to certification cutoff.
61	03-43	Implement procedures to monitor the receipt and processing status of large excise tax returns to ensure that they are promptly recorded in IRS's master file prior to certifying excise tax distributions. (short-term)	<i>Management Report: Improvements Needed in Controls over IRS's Excise Tax Certification Process</i> ( <a href="#">GAO-03-687R</a> , July 23, 2003)	Closed. The Cincinnati Campus's program analyst staff and reports excise analysts are monitoring to ensure timely posting of returns of the largest-dollar excise taxpayers. The Service Level Administration between the Cincinnati Submission Processing and Compliance campuses ensures monitoring and processing of all Form 720 returns on a 6-day cycle. Compliance has verified that Form 720 returns are being processed on a 6-day cycle, procedures are in place, and IRS is monitoring to ensure timely posting of returns of the largest-dollar excise taxpayers.	Closed. IRS's Internal Revenue Manual was modified to require that all excise tax returns be processed on a 6-day cycle. The 6-day cycle begins after the returns are batched, which is normally within a week. We verified during our fiscal year 2004 audit that IRS had implemented procedures to monitor excise tax returns to ensure that it meets this requirement.

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62	04-01	Require lockbox bank managers to maintain appropriate documentation on site demonstrating that satisfactory fingerprint results have been received before contractors are granted access to taxpayer receipts and data. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures (GAO-04-553R, Apr. 26, 2004)</i>	Closed. The current LPG requires appropriate documentation for couriers and guards before contractors are granted access to taxpayer receipts. To ensure compliance with the LPG, IRS and FMS will include this as a review item when performing security and administrative reviews. The procedures will be included in the 2005 LPG with an effective date of January 17, 2005.	Open. During our fiscal year 2004 audit, we verified that the LPG required appropriate documentation prior to couriers and guards being granted access to taxpayer receipts. However, we found at two of the four lockbox banks we visited that contractors who had not undergone fingerprinting or background investigations were granted unescorted access to the lockbox bank. Some of IRS's corrective actions to address on-site documentation deficiencies occurred subsequent to our fiscal year 2004 fieldwork. We will continue to evaluate these actions during our fiscal year 2005 audit.
63	04-02	Revise its policy on two-person courier teams to prohibit the use of courier teams consisting of closely related individuals to further minimize the risk of collusion in the theft of taxpayer receipts and data. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures (GAO-04-553R, Apr. 26, 2004)</i>	Open. Additional background investigation requirements for all couriers have been implemented. IRS is researching the feasibility and impacts of changing current contracts with couriers for SPC. The LPG will be updated to prohibit immediate family members from traveling in pairs on courier routes. The update will be made by February 15, 2005, with an effective date to be determined before the April peak.	Open. During our fiscal year 2004 audit visits to two SPCs and one lockbox bank, we found that closely related individuals were operating as deposit couriers. We will continue to evaluate IRS's corrective actions during our fiscal year 2005 audit.

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64	04-03	Develop procedures to require lockbox managers to provide satisfactory evidence that managerial reviews are performed in accordance with established guidelines. At a minimum, reviewers should sign and date the reviewed documents and provide any comments that may be appropriate in the event that their reviews identified problems or raised questions. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, Apr. 26, 2004)	Closed. The LPG instructs the banks to perform numerous managerial reviews. IRS will consider the risk level of each of the documented logs and assess each one to determine the appropriate level of review and if more guidelines are necessary. LPG 3.5.1.3(3) Desk and Work Area Reviews was updated to state that the reviewing manager's initial is required as well as the site manager's initial. This will be effective January 17, 2005. Any discovered remittances must be recorded on Form 9535. In the remarks section the site must indicate how the item was found. This was effective February 2005.	Open. During our fiscal year 2004 audit, we verified that the LPG instructs the lockbox bank managers to perform numerous managerial reviews. However, we found that three of the four lockbox banks we visited did not adhere to the LPG requirements for maintaining and reviewing courier logs. In addition, we found that LPG desk check review procedures were not followed at two of the lockbox banks. Many of IRS's corrective actions addressing documentation of required reviews occurred subsequent to our fiscal year 2004 field work. We will continue to evaluate IRS's actions during our fiscal year 2005 audit.
65	04-04	Revise candling procedures at lockbox banks to require testing of automated candling machines at appropriate intervals, taking into account such factors as use time, volume processed, machine requirements, and shift cycles. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, Apr. 26, 2004)	Open. IRS requires an additional candling of all envelopes processed by extractors using machines that have automated candling equipment. This requirement mitigates the risk identified by GAO. However, IRS agrees to assess its current guidelines for possible inclusion of testing standards for equipment with automated candling equipment. LPG 3.2.8.1(1) Candling Equipment Maintenance, was developed and states, "All candling equipment, including OPEX mail machines, must be maintained to ensure maximum efficiency. Maximum efficiency is determined by testing at least 10 envelopes daily." This will be effective as of January 3, 2005.	Open. We will evaluate IRS's corrective actions during our fiscal year 2005 audit.



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66	04-05	Require lockbox managers to maintain logs of these tests and to periodically review their logs. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> ( <a href="#">GAO-04-553R</a> , Apr. 26, 2004)	Closed. Testing standards were implemented in the January 1, 2005, LPG. However, we revised the requirements on January 31, 2005, to ensure clarification of peak-versus-nonpeak testing requirements. The supporting LPG requirement follows: LPG 3.2.8.1 Candling Equipment Maintenance (1) All candling equipment, including OPEX machines, must be maintained to ensure maximum efficiency. Maximum efficiency is determined by testing at least 10 envelopes daily during nonpeak and for each shift during peak. (2) Management shall maintain a log of all equipment tests. This log shall be justification for requesting machine servicing. (3) A monthly review report must be sent to the Lockbox Field Coordinator. (see LPG 3.5.1(2)). (4) Each site must keep vendor maintenance records available for immediate review. IRS Lockbox Policy and Procedures and IRS Mission Assurance updated the security section of the 2005 LPG. A security review checklist was also developed requiring the security team to conduct periodic security reviews to verify all requirements in the LPG are being met.	Open. We found that one lockbox bank we visited during our fiscal year 2004 audit did not maintain a maintenance log for an automated extraction and candling machine. Instead, the vendor maintained the log in a locked drawer accessible only to the vendor. IRS's actions to increase testing for automated extraction and candling equipment, and documentation of these tests by management, occurred subsequent to our fiscal year 2004 fieldwork. We will evaluate IRS's actions during our fiscal year 2005 audit.

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67	04-06	Discontinue the practice of storing taxpayer receipts and data outside TAC secured areas without storing the receipts in a secured locked container. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> ( <a href="#">GAO-04-553R</a> , Apr. 26, 2004)	Closed. Written procedures have been provided to TAC employees for safeguarding taxpayer receipts when received. IRM 21.3.4.7(6), issued in June 2003, provides guidance stating that payments received from taxpayers will be immediately placed in a locked container. The receipts are also stored away from employees' personal belongings. IRS will continue to conduct operational reviews at TAC offices to ensure IRM procedures are being followed. The TAC location that was noted for securing payments from taxpayers outside the secure area of the TAC was contacted and the location of the desk has been moved inside the secured area of the TAC. The TAC manager was informed to ensure all TAC operations are conducted inside the secured area of the TAC. IRS monitored adherence to IRM procedures related to receiving and storing taxpayer data in secured areas during operational reviews conducted in fiscal year 2004. No discrepancies were noted.	Closed. We verified that IRS included monitoring of its policy and procedures regarding receiving and storing taxpayer data in secured areas during operational reviews conducted in fiscal year 2004. In addition, we did not find any instances during our fiscal year 2004 audit visits to IRS field offices in which taxpayer receipts and data stored outside the TAC secured areas were not stored in a secured locked container.

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68	04-07	Develop procedures to enhance adherence to existing instructions on safeguarding discovered remittances at service center campuses. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, Apr. 26, 2004)	Closed. In 2003, IRM 3.8.46 was written and distributed to all campuses. Form 4287 (Record of Discovered Remittances) has been revised to enhance adherence to existing instructions by including a check box for managers to indicate that reconciliation has been performed. Also, IRS revised the monthly security checklist to include a review of the discovered remittance procedures. In addition, IRS added this item to the monthly security checklist to include a review of the discovered remittance procedures.	Open. During our fiscal year 2004 audit, we verified that IRS had revised the IRM to require managers to indicate that a reconciliation of discovered remittances had been performed and also included this item in the monthly security checklist. However, we found that three of the four SPCs we visited did not adhere to the IRM procedures for Form 4287 ("Record of Discovered Remittances").
69	04-08	Enforce policies and procedures to ensure that service center campus security guards respond to alarms. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, Apr. 26, 2004)	Closed. Beginning October 1, 2004, all campuses and computing centers were tasked to perform ongoing monthly unannounced alarm tests and to report the results to the Physical Security Program Office. Tests and results are being maintained by the Physical Security Program Office. IRM 1.16.12, Security Guard Service and Explosive Detector Dog Program, was rewritten October 18, 2004, to include the requirement that contracting officers' technical representatives conduct random exercises on a quarterly basis, at a minimum, using mock scenarios to measure response times, actions, tactics, techniques, and procedures of uniformed guard forces. Final issuance is expected by not later than September 30, 2005.	Open. During our fiscal year 2004 audit, we continued to find weakness in IRS's enforcement of policies and procedures to ensure that service center campus security guards respond to alarms. At one SPC we visited, we found that an off-site code and edit function was located in a building without on-site security guards and access was controlled only with proximity cards. When we tested two exit door alarms, the door alarms were inaudible and there was no response from the alarm monitoring company because, according to IRS, the company only responds to after-hours alarms. IRS's implementation of new procedures to address guard response issues occurred subsequent to the end of our fiscal year 2004 fieldwork. We will evaluate IRS's corrective actions during our fiscal year 2005 audit.

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70	04-09	Establish compensating controls in the event that automated security systems malfunction, such as notifying guards and managers of the malfunction, and immediately deploying guards to better protect the processing center's perimeter. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> ( <a href="#">GAO-04-553R</a> , Apr. 26, 2004)	Closed. The IRS physical security programs within Mission Assurance and Security Services developed procedures to be used in conjunction with the policies developed in recommendation 04-08 to ensure that local management is notified whenever there is a malfunction of alarms and that guards are deployed or doors are secured, as necessary, either during tests or when otherwise needed. Procedures will include management notification of alarm test failure. The project manager for the guard force contract is required to sign off on all unannounced alarm test reports.	Open. IRS's implementation of new procedures to address guard response issues occurred subsequent to the end of our fiscal year 2004 fieldwork. Although we did not observe any instances in which guards did not respond due to a malfunction in an automated security system during our fiscal year 2004 visits to four SPCs, we will evaluate IRS's newly implemented corrective actions during our fiscal year 2005 audit.
71	04-10	Modify Aged Unliquidated Obligations (AUO) reports to ensure that they report the last activity date for each outstanding obligation line amount. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> ( <a href="#">GAO-04-553R</a> , Apr. 26, 2004)	Closed. IRS has revised the Aging Unliquidated Obligations report to accurately capture the last activity date for each obligation line amount.	Closed. During our fiscal year 2004 audit, we verified that IRS modified AUO reports to capture the last activity date for each obligation line amount.

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72	04-11	Require procurement office staff to review and sign off on whether obligations are valid or require deobligation before business units complete their quarterly certifications. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, Apr. 26, 2004)	Closed. In fiscal year 2004, IRS implemented new guidelines for the quarterly review and certification of all outstanding obligations. The procurement office conducted reviews to ensure the accuracy of the unliquidated balances. Financial plan managers reviewed procurement responses prior to processing deobligations and completing their quarterly certifications.	Closed. During our fiscal year 2004 audit, we verified that IRS implemented new guidelines for the quarterly review and certification of all outstanding obligations. As part of the review process, the procurement office staff reviews the AUO reports and determines whether obligations that they are responsible for reviewing are valid or need to be deobligated. The financial plan managers review procurement office staff responses prior to completing their quarterly certifications. In addition, during our fiscal year 2004 testing, we found that obligations were being properly and timely deobligated.
73	04-12	Enhance compensating internal controls by including tests or recalculations of payroll computations performed by NFC for the IRS employees selected for review each pay period. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, Apr. 26, 2004)	Closed. A detailed Standard Operation Procedures (SOP) was developed and implemented on July 1, 2004, to review the full gross to net pay calculation for a random sample of IRS employees each pay period. The first quarterly review was accomplished on October 1, 2004.	Closed. In fiscal year 2004, we confirmed that IRS developed and implemented procedures to review the full gross to net pay calculation for a random sample of IRS employees each pay period.
74	04-13	Timely investigate and resolve any identified errors. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, Apr. 26, 2004)	Closed. Procedures outlined in the SOP noted above found no significant discrepancies in NFC payroll calculations. The discrepancies found were primarily rounding issues. The findings were forwarded to the Department of the Treasury to be shared with NFC in October 2004. The process is now in place to forward findings to the Department of the Treasury and NFC each quarter.	Closed. In fiscal year 2004, we confirmed that IRS implemented procedures to review the full gross to net pay calculation for a random sample of IRS employees each pay period and satisfactorily resolved any errors or exceptions found.

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75	04-14	Establish review procedures for amounts being reported in supplemental information to the financial statements for Other Claims for Refund. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, Apr. 26, 2004)	Closed. On October 29, 2004, IRS implemented a second level of management review to identify and report any changes in the final financial statements.	Closed. The amounts reported as supplemental information as of September 30, 2004, agreed with the documentation provided by IRS's chief counsel.
76	04-15	Until the Business Performance Management System (BPMS) is fully operational, implement procedures to ensure that all performance data reported in the MPS report are subject to effective, documented reviews to provide reasonable assurance that the data are current at interim periods. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures</i> (GAO-04-553R, Apr. 26, 2004)	Closed. IRS has taken steps to ensure that the performance measures data reported in the monthly report are properly reviewed before being published. All divisions now submit most of their performance measures data directly to BPMS. The divisions are required to verify/certify the accuracy of the data before uploading to BPMS. Corporate Performance Budgeting staff implemented additional manual quality control procedures that include reviewing all tables, charts, and line graphs and visually inspecting the numbers and comparing the information to the previous month's report for consistency. In addition, IRS is working with Treasury to streamline its current set of performance measures. Its purpose is to increase the value of the information provided to stakeholders, focus priorities, and reduce administrative burden.	Open. In fiscal year 2004, we continued to find errors in IRS's interim performance measures data. GAO will continue to monitor IRS's progress in this area during our fiscal year 2005 financial audit.
77	05-01	Expedite efforts to resolve the backlog of unpostable liens, releasing liens as appropriate. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> (GAO-05-26R, Jan. 10, 2005)	Open. IRS established a team at the Cincinnati campus's Centralized Lien Processing Unit to resolve the backlog of unpostable liens. Resolution of the backlog of 8,900 unpostables is ongoing daily with managerial oversight. IRS expects completion by July 15, 2005.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.

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78	05-02	Keep current on all new unpostable liens. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> (GAO-05-26R, Jan. 10, 2005)	Open. IRS established a team at the Cincinnati campus's Centralized Lien Processing Unit to resolve the unpostable lien exception reports. Lien transactions that do not post to a taxpayer's account will now be resolved weekly. Managers will monitor reports to ensure timely resolution and take appropriate corrective actions when necessary. Collection Policy will conduct an on-site review no later than September 2005.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.
79	05-03	Research and resolve the current backlog of unresolved unmatched exception reports. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> (GAO-05-26R, Jan. 10, 2005)	Open. Managers and employees have received training on the entity portion of the Satisfied Module (SATMOD) Reject Report. Resolution of the backlog will be conducted by the centralized site. Anticipated time for resolution is being extended to May 2006 in order to complete a workshop, compile the extract from the master file, and establish a specific group of employees to work on the backlog.	Open. This is a new recommendation. We will review IRS's corrective actions during future audits.

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80	05-04	Research and resolve unmatched exception reports weekly. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> ( <a href="#">GAO-05-26R</a> , Jan. 10, 2005)	Open. IRS developed new procedures for working on the unmatched exception reports. Accounts on the unmatched exception report will be resolved by matching information between the master file and the Automated Lien System (ALS). Timely report resolution is an integral function of the Centralized Lien Unit, and time frames and managerial oversight are built into report resolution processes. Managers and employees have received training on the entity portion of the reject report. Training will be ongoing as new employees are assigned to the unit. IRM provisions require resolution of rejected accounts within 5 business days. Managers will monitor timeliness and will report weekly on the outstanding inventory. The Collection Policy unit will conduct on-site reviews to determine if procedural changes are required. The review will be conducted no later than September 2005.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.



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81	05-05	Provide training to designated staff on how to resolve exception reports. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> (GAO-05-26R, Jan. 10, 2005)	Open. Managers and employees have received training on the resolution of the restricted interest portion of the SATMOD reject report. Managers will report weekly on the outstanding inventory. The Collection Policy unit will conduct reviews to determine if procedural changes are required. Anticipated time for resolution is being extended to May 2006 in order to complete a workshop, establish a specific group to work on the backlog, and complete the extract of Master File data.	Open. This is a new recommendation. We will review IRS's corrective actions during future audits.
82	05-06	Research and resolve the current backlog of unresolved manual interest or penalties reports. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases</i> (GAO-05-26R, Jan. 10, 2005)	Open. Managers and employees have received training on the resolution of the manual computation portion of the reject report. IRM provisions require resolution of the rejected accounts within 5 business days. Managers will monitor timeliness and will report weekly on the outstanding inventory. The Collection Policy unit will conduct an on-site review. Training will be given to all new employees as they are assigned to the group. The anticipated completion date is September 2005.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.

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83	05-07	Research and resolve exception reports containing liens with manually calculated interest or penalties weekly, as called for in the Internal Revenue Manual and the ALS User Guide. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases (GAO-05-26R, Jan. 10, 2005)</i>	Open. IRS developed new procedures for working on exception reports containing liens with manually calculated interest. Accounts listed on the exception report containing manually calculated interest or penalties will now be sent to the Examination Case Processing function for computation and then returned to the Centralized Lien Processing Unit for either lien release or other appropriate action. Timely report resolution is an integral function of the Centralized Lien Unit, and time frames and managerial oversight are built into report resolution processes. Managers and employees have received training on the resolution of the manually computed interest portion of the SATMOD reject report. A Master File extract has been requested. The anticipated completion date is May 2006 in order to complete the extract, conduct a workshop, and establish a specific group to work on the backlog. Management will report weekly on the outstanding inventory and the Collection Policy unit will conduct on-site reviews.	Open. This is a new recommendation. We will review IRS's corrective actions during future audits.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
84	05-08	Provide training to designated staff on how to resolve exception reports containing accounts with manually calculated interest or penalties. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases (GAO-05-26R, Jan. 10, 2005)</i>	Open. Management has provided training to employees and will train all new employees assigned to the group. A workshop will be conducted to cover the resolution of these reports and management will report weekly on the outstanding inventory. The Collection Policy unit will conduct on-site reviews. Anticipated completion date is September 15, 2005.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.
85	05-09	Improve the current unmatched exception report by including a cumulative list of all unmatched taxpayer accounts that have not been resolved to date. (short-term)	<i>Opportunities to Improve Timeliness of IRS Lien Releases (GAO-05-26R, Jan. 10, 2005)</i>	Open. Requests for additional enhancements to cumulate the reject report have been initiated. In the interim, area managers are required to print and resolve reports based on IRM procedures. Anticipated date of completion is January 2007.	Open. This is a new recommendation. We will review IRS's corrective actions during future audits.
86	05-10	Revise Accounts Management Mail Unit procedures, scheduled to be incorporated into the IRM, to include detailed instructions for (1) monitoring transshipped documents and (2) handling cash receipts found during extraction. Where adequate guidance exists elsewhere, IRS should include these through cross-references. (short-term)	<i>Management Report: Review of Controls over Safeguarding Taxpayer Receipts and Information at the Brookhaven Service Center Campus (GAO-05-319R, Mar. 10, 2005)</i>	Open. IRS has submitted a new IRM update, scheduled for publication in December 2005, to address issues regarding transshipped documents and cash receipts. In the interim, IRS will continue using the Standard Operating Procedures that contain detailed information for document transmittals and the monitoring and control of cash receipts.	Open. This is a new recommendation. We will review IRS's corrective actions during future audits.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
87	05-11	Enforce adherence to existing instructions on safeguarding taxpayer receipts and information, such as securing access and candling procedures, at service center campuses (SCC) selected for significant reductions in their submission processing functions. (short-term)	<i>Management Report: Review of Controls over Safeguarding Taxpayer Receipts and Information at the Brookhaven Service Center Campus</i> (GAO-05-319R, Mar. 10, 2005)	Closed. IRS has taken corrective action to ensure that employees and managers are fully familiar with the correct procedures for safeguarding taxpayer receipts and information. Corrective actions taken include counseling employees on proper procedures; holding a meeting with security clerks to review procedures for issuing badges granting access to secured areas; taking inventories of badges after each shift; implementing new procedures to secure taxpayer data and related information awaiting destruction; holding a meeting with mail employees to review the candling procedures; and continuing to perform management reviews to ensure adherence to the candling procedures.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.
88	05-12	Document a methodology for estimating anticipated rapid changes in mail volume at future SCCs selected for significant reductions in their submission processing functions, taking into consideration factors such as the prior rampdown experience at Brookhaven. (short-term)	<i>Management Report: Review of Controls over Safeguarding Taxpayer Receipts and Information at the Brookhaven Service Center Campus</i> (GAO-05-319R, Mar. 10, 2005)	Open. IRS will use historical data obtained from the Brookhaven Campus rampdown, and any other prior consolidations, to develop and document a methodology for estimating future mail volumes. This methodology will be used in future consolidations to ensure that IRS has reliable data to effectively manage resources during and after the consolidation period.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
89	05-13	Enforce its existing requirement that appropriate background investigations be completed for contractors before they are granted staff-like access to service centers. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Closed. IRS has implemented steps to monitor and enforce the requirements issued on September 29, 2003, on the issuance of ID cards to contractors. This guidance requires that a letter from the National Background Investigation Center (NBIC) indicating successful completion of at least an interim background investigation be received by the issuing office before a contractor can be approved for staff-like access to IRS. The guidance further stipulates that Physical Security staff would, at least every 6 months, ensure that a re-certification had been received from the Contracting Officer's Technical Representative (COTR) confirming the contractors' need for continued staff-like access to the IRS facility. Additionally, as part of the required records and accountability process, non-federal photo ID cards are audited annually by the issuing office to reconcile numerical and alphabetical files and ensure that ID cards have been recovered upon separation or termination of the contract.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
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90	05-14	Require that background investigation results for contractors (or evidence thereof) be on file where necessary, including at contractor worksites and security offices responsible for controlling access to sites containing taxpayer receipts and information. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. In the guidance memorandum IRS issued on September 29, 2003, the Physical Security Program Office requires the COTR to complete and submit a request form for every contract employee. Implementation of the standardized form assures that all required information is provided in order for the contractor to receive its IRS photo ID card. This guidance also requires that a copy of the letter from NBIC indicating successful completion of at least an interim background investigation be attached to the request form or no ID card will be issued. Both documents are maintained by the issuing office. The IRS COTR for the lockbox banks verified that all six banks currently maintain background investigation records, including copies of documents submitted to NBIC and lists of cleared personnel. The Physical Security Program Office will work with the Business Operating Divisions (BOD) and Procurement to determine if the interagency agreement with Financial Management Services (FMS) should be modified to include a requirement for lockbox banks to maintain background investigation files. The estimated completion date for the review of the interagency agreement is November 2005.	Open. This is a new recommendation. We will review the status of IRS's planned corrective actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
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91	05-15	Require that courier contracts call for couriers to submit contingency plans to lockbox banks. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Closed. IRS updated LPG 4.2.3.1, Courier Contingency Plan, on January 1, 2005, to require that prior to implementation of the contract, the courier service must provide the lockbox with a disaster contingency plan. The contingency plan must cover labor disputes, employee strikes, inclement weather, natural disasters, traffic accidents, and unforeseen events.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.
92	05-16	Review lockbox bank courier contingency plans to help ensure that they incorporate all contingencies specified in the LPG. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Closed. Contingency plans were provided by all lockbox sites and are part of the Filing Season Readiness (FSR) Plan. LPG 4.2.3.1 states "the contingency plan must cover labor disputes, employee strikes, inclement weather, natural disasters, traffic accidents, and unforeseen events." The Lockbox Coordinators reviewed the contingency plans to ensure that these issues were addressed.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's actions during our fiscal year 2005 audit.
93	05-17	Revise the LPG to specify that courier contingency plans be available at lockbox banks. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. LPG 2.1.7 requires each lockbox bank to submit an annual FSR Plan. The plan must be submitted to the Lockbox Field Coordinators for review to ensure each site is prepared for the filing season. Lockbox Field Coordinators will ensure all contingencies specified in the LPG are incorporated in the contract. Additionally, the LPG will be updated by April 15, 2005, to require all lockbox banks to have the courier contingency plan available on site.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
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94	05-18	Review lockbox bank courier and shredding contracts to ensure that they address all privacy-related criteria and include clear reference to privacy-related laws and regulations. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Closed. LPG 4.2.3(2), Courier Services, updated January 1, 2005, requires lockbox banks to ensure all bonded courier/armored car agreements specifically address privacy-related criteria and include references to the Privacy Act of 1974 and the Internal Revenue Code (IRC) Sections 6103, 7213, and 7131. IRS will monitor this action during on-site reviews.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.
95	05-19	Revise the LPG to require that (1) lockbox couriers promptly return deposit receipts to the lockbox banks following delivery of taxpayer remittances to depositories and, (2) lockbox banks promptly review the returned deposit receipts. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Closed. LPG 4.2.3.1.8, Receipt for Transport of IRS Lockbox Bank Deposit Form, updated January 1, 2005, requires the lockbox site receive back, by the next business day, the original completed Receipt for Transport of IRS Lockbox Bank Deposit Form with the depository representative's name, signature, and date and time the deposit was received by the depository. The lockbox banks are to reconcile the Receipt for Transport of IRS Lockbox Bank Deposit Form(s) daily to ensure receipt of dedicated service (e.g., the time between release of the deposit to the courier and its release to the depository is not in excess). If discrepancies are found, the Lockbox Field Coordinator should be notified immediately.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.



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Count	No.	Recommendation	Source report	Status of recommendations	
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96	05-20	Revise the LPG to require that deposit receipts for taxpayer remittances be time- and date-stamped. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Closed. LPG 4.2.3.1.8, Receipt for Transport of IRS Lockbox Bank Deposit Form, was updated on January 1, 2005, to require the courier service employee to return the deposit receipt form to the lockbox site on the next business day and ensure the form contains the depository bank employee's name and signature, the date the deposit was received by the depository, and the time the deposit was received by the depository.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.
97	05-21	Better enforce the LPG requirement that lockbox bank couriers annotate the time of delivery on receipts for deposits of taxpayer remittances. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Closed. LPG 4.2.3.1.8, Receipt for Transport of IRS Lockbox Bank Deposit Form, was updated on January 1, 2005, to require lockbox bank couriers to annotate the time of delivery of receipts for deposits of taxpayer remittances.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.
98	05-22	Provide a written reminder to courier contractors of the need to adhere to all courier service procedures. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. IRS will develop an annual memorandum by January 1, 2006, requiring banks to remind courier contractors to adhere to all courier service procedures in the LPG. IRS will monitor adherence during site reviews.	Open. This is a new recommendation. We will review the status of IRS's planned corrective actions during our fiscal year 2005 audit.
99	05-23	Periodically verify that contractors entrusted with taxpayer receipts and information offsite adhere to IRS procedures. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Closed. The 2005 LPG 4.2.3.1.8(1) has been updated and the procedures will be monitored during the periodic security reviews.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
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100	05-24	Develop alternative, back-up plans that are consistent with IRS courier policies and procedures to address instances in which only one courier reports for transport of taxpayer receipts or information, such as requiring that a service center or lockbox bank employee accompany the courier to the depository. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. IRS will work with FMS to develop an alternative back-up plan by June 30, 2005.	Open. This is a new recommendation. We will review the status of IRS's planned corrective actions during our fiscal year 2005 audit.
101	05-25	Formulate a policy to require that critical utility or security controls not be located in areas requiring frequent access. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. IRS will ensure policy guidelines address protection of critical or security controls and will work with the business operating divisions and Procurement to incorporate any revised requirements into updated and future interagency agreements with FMS.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.
102	05-26	Require lockbox bank management to position closed-circuit television cameras (CCTV) to enable monitoring of secured areas containing sensitive systems or controls. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. The LPG requires the lockbox banks have installed cameras to monitor critical areas and assets in those parts of a facility controlled by the banks. IRS will review, through its Mission Assurance review process, the use of CCTV at the banks and, within local constraints, expand surveillance capabilities to include utility controls.	Open. This is a new recommendation. We will review IRS's actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
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103	05-27	Periodically monitor lockbox banks' adherence to the LPG requirement that keys be kept in secured containers within the secured perimeter. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls (GAO-05-247R, Apr. 27, 2005)</i>	Open. The LPG requires that keys and security panels controlled by the banks be properly stored and secured. IRS's Mission Assurance will include controls over keys as part of any and all reviews. As part of the review process, IRS will work with the banks and lessors to improve security for keys and security panels, irrespective of ownership.	Open. This is a new recommendation. We will review IRS's actions during our fiscal year 2005 audit.
104	05-28	Assess technologies that may be exempt from the visual inspection requirement to determine whether they are acceptable methods of satisfying candling objectives and, if so, add such technologies to the LPG list of accepted candling methods. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls (GAO-05-247R, Apr. 27, 2005)</i>	Closed. IRS determined that current technologies are not exempt from the candling requirement and added to the 2005 LPG 3.2.8(1) that envelopes opened (either manually or by OPEX) on three or more sides must be candled once on the candling tables. All other envelopes must be candled twice on the candling tables.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.
105	05-29	Conduct an assessment of the costs and benefits of relying on only one candling when using certain automated equipment. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls (GAO-05-247R, Apr. 27, 2005)</i>	Closed. IRS assessed the candling functions on automated equipment and included in the 2005 LPG 3.2.8 section (1) a requirement that envelopes opened (either manually or by OPEX equipment) on three or more sides must be candled once on the candling tables. IRS will monitor adherence during site reviews.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.
106	05-30	Clarify the LPG to eliminate confusion about the number of candlings required for different extraction methods. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls (GAO-05-247R, Apr. 27, 2005)</i>	Closed. IRS updated the 2005 LPG 3.2.8, Candling, to require that envelopes opened (either manually or by OPEX) on three or more sides must be candled once on the candling tables. All other envelopes must be candled twice on the candling tables.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
107	05-31	Establish guidelines and a testing requirement to ensure satisfactory lighting conditions for effective candling. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Open. IRS is in the process of reviewing and strengthening current procedures contained in IRM 3.10.72, Batching, Sorting and Numbering.	Open. This is a new recommendation. We will review the status of IRS's planned corrective actions during our fiscal year 2005 audit.
108	05-32	Establish policies and procedures to require appropriate segregation of duties in small business/self-employed (SB/SE) units of field offices with respect to preparation of Payment Posting Vouchers, Document Transmittal forms, and transmittal packages. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Open. IRS will establish a procedure(s) for SB/SE field office units to track Document Transmittal forms and acknowledgments of receipt of Document Transmittal forms. IRS will also strengthen guidance to revenue officers and will develop procedures specifically for its field clerical staff. IRS's procedures will clarify that revenue officers are responsible for submitting an appropriately labeled sealed envelope containing the Daily Report of Collection Activity form to a designated clerical contact in the Post of Duty (POD). This guidance will apply unless the revenue officers are working away from the POD on extended field calls, flexiplace, or are working in a single revenue officer POD. Those revenue officers will send the envelope directly to Submission Processing.	Open. This is a new recommendation. We will review the status of IRS's corrective actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
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109	05-33	Enforce the requirement that a document transmittal form listing the enclosed Daily Report of Collection Activity forms be included in transmittal packages, using such methods as more frequent inspections or increased reliance on error reports compiled by the service center teller units receiving the information. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Open. IRS procedures will clarify that the designated clerical contacts are responsible for bundling sealed envelopes into a single package for overnight mail to Submission Processing pursuant to the IRM. The procedures will also clarify that the designated clerical contacts will prepare a Document Transmittal form and send the prepared package to Submission Processing via overnight mail. The procedures will direct the designated clerical contact to retain a control copy of the Document Transmittal form and the overnight mail transmittal until the receipted copy of the Document Transmittal form is returned from Submission Processing. The IRS will also require that the transmittal and the acknowledgment be reconciled on a monthly basis, with appropriate follow-up as required. IRS will also issue a memorandum to all Field Assistance employees reminding them to adhere to these IRM requirements. IRS will also add this as a review item for operational reviews conducted by Field Assistance headquarters and area personnel.	Open. This is a new recommendation. We will review the status of IRS's corrective actions during our fiscal year 2005 audit.
110	05-34	Establish a procedure for SB/SE field office units to track Document Transmittal forms and acknowledgments of receipt of Document Transmittal forms. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Open. IRS will update its procedures to clarify that the managers should ensure continuous coverage of the designated clerical contact duties so that absence due to illness or leave does not disrupt the processing of remittances.	Open. This is a new recommendation. We will review the status of IRS's planned corrective actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
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111	05-35	Require evidence of managerial review of recording, transmittal, and receipt of acknowledgments of taxpayer receipts and information. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. IRS will establish a procedure(s) to require evidence of managerial review of recording, transmittal, and receipt of acknowledgments of taxpayer receipts and information. However, IRS will not implement any procedure requiring 100 percent managerial review. IRS's new procedures will call for random managerial spot-checking of packages prepared for submission to Submission Processing by revenue officers working in PODs or by the designated clerical contacts in the PODs. The new procedure(s) will not call for any random managerial spot-checking of packages prepared by revenue officers working away from the POD on extended field calls or flexiplace. Instead, on those packages, IRS will continue to rely on the remittance reviews conducted by remittance processing personnel in Submission Processing. These reviews will be documented by the revenue officer group manager and be retained for the appropriate period required under record management guidelines.	Open. This is a new recommendation. We will review the status of IRS's planned corrective actions during our fiscal year 2005 audit.

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Count	No.	Recommendation	Source report	Status of recommendations	
				Per IRS	Per GAO
112	05-36	Assess options to prevent the generation or disbursement of refunds associated with accounts with unresolved AUR discrepancies, including placement of a freeze or hold on all such accounts, until the AUR review has been completed. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Closed. IRS believes that, if followed, the procedures it has in place adequately address preventing the generation or disbursement of refunds associated with AUR accounts. IRM 3.8.45 requires employees receiving an unidentified remittance to conduct Individual Data Retrieval System (IDRS) research to determine if there is an open account that allows for posting of the remittance. Also, AUR will partner with Submissions Processing to ensure that employees receiving unidentified remittances are aware of the need to conduct IDRS research and how to properly post AUR remittances in these instances.	Open. This is a new recommendation. We will assess IRS's adherence to its existing procedures and other actions it plans to take during our fiscal year 2005 audit.
113	05-37	Enforce documentation requirements relating to authorizing officials charged with approving manual refunds. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> (GAO-05-247R, Apr. 27, 2005)	Open. IRS will enforce requirements to document monitoring by reminding management officials annually via a memorandum, notice, or an Alert. As part of the reminder, the IRM check sheets will be included and a response will be required confirming these actions have been taken. In addition, IRS will consider including this item in the Management Accountability Review Process.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.

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114	05-38	Enforce requirements for monitoring accounts and reviewing monitoring of accounts. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. IRS will enforce monitoring requirements by reminding management officials annually via a memorandum, notice, or an Alert. As part of the reminder, the IRM check sheets will be included and a response will be required confirming these actions have been taken. In addition, IRS will consider including this item in the Management Accountability Review Process.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.
115	05-39	Enforce requirements for documenting monitoring actions and supervisory review. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. IRS will enforce requirements to document monitoring by reminding management officials annually via a memorandum, notice, or an Alert. As part of the reminder, the IRM check sheets will be included and a response will be required confirming these actions have been taken. In addition, IRS will consider including this item in the Management Accountability Review Process.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.
116	05-40	Enforce the requirement that command code profiles be reviewed at least once annually. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. IRS will enforce annual review of command code profiles by reminding management officials annually via a memorandum or notice. As part of the reminder, the IRM check sheets will be included and a response will be required confirming these actions have been taken. In addition, IRS will consider including this in the Management Accountability Review Process.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.



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117	05-41	Specify in the IRM that staff members are not to review their own command code profiles. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Open. The IRM wording will be updated and recommendations will be included in annual reminders (memos/notices, etc.) to management officials that the approver's manager is responsible for ensuring that approvers' profiles have appropriate restrictions and have been reviewed.	Open. This is a new recommendation. We will review IRS's corrective actions during our fiscal year 2005 audit.
118	05-42	Specify in the IRM how to properly verify interest and penalties for accounts with liens with manually calculated interest or penalties. (short-term)	<i>Management Report: Improvements Needed in IRS's Internal Controls</i> ( <a href="#">GAO-05-247R</a> , Apr. 27, 2005)	Closed. IRS revised the IRM to instruct employees to check the Integrated Data Retrieval System (IDRS) to determine if restricted interest or penalty is due. The IRM now clearly states that there are only two instances where restricted interest and penalty should not be computed, offer-in-compromise and bankruptcy cases. Also, instructions for computing restricted interest and penalty are found in the Automated Lien System (ALS) User Guide as well as in training material and desk guides. In addition, tax examiners hired to staff the Centralized Case Processing (CCP), Lien Processing Unit were provided hands-on training in the computation of restricted interest and penalty. Resolution of these cases moved to CCP effective February 2005. The centralized site has created a special group of employees who were trained in the resolution of restricted interest and penalty cases. New hires for this group will also receive this training.	Open. This is a new recommendation. IRS's actions occurred subsequent to the completion of our fiscal year 2004 audit. We will review IRS's corrective actions during our fiscal year 2005 audit.

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# Details on Audit Methodology

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To fulfill our responsibilities as the auditor of the Internal Revenue Service's (IRS) financial statements, we did the following:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. This included testing selected statistical samples of unpaid assessments, revenue, refunds, accrued expenses, payroll, nonpayroll, property and equipment, and undelivered order transactions. These statistical samples were selected primarily to substantiate balances and activities reported in IRS's financial statements. Consequently, dollar errors or amounts can and have been statistically projected to the population of transactions from which they were selected. In testing these samples, certain attributes were identified that indicated either significant deficiencies in the design or operation of internal control or compliance with provisions of laws and regulations. These attributes, where applicable, can be and have been statistically projected to the appropriate populations.
- Assessed the accounting principles used and significant estimates made by management.
- Evaluated the overall presentation of the financial statements.
- Obtained an understanding of internal controls related to financial reporting (including safeguarding assets), compliance with laws and regulations (including the execution of transactions in accordance with budget authority), and performance measures reported in the Management's Discussion and Analysis.
- Tested relevant internal controls over financial reporting (including safeguarding assets) and compliance, and evaluated the design and operating effectiveness of internal controls.
- Considered the process for evaluating and reporting on internal controls and financial management systems under 31 U.S.C. § 3512(c), (d), commonly referred to as the Federal Managers' Financial Integrity Act of 1982.
- Tested compliance with selected provisions of the following laws and regulations: Anti-Deficiency Act, as amended (31 U.S.C. § 1341(a)(1) and 31 U.S.C. § 1517(a)); agreements for payment of tax liability in installments (26 U.S.C. § 6159); Purpose Statute (31 U.S.C. § 1301); release of lien or discharge of property (26 U.S.C. § 6325); interest on

underpayment, nonpayment, or extensions of time for payment of tax (26 U.S.C. § 6601); interest on overpayments (26 U.S.C. § 6611); determination of rate of interest (26 U.S.C. § 6621); failure to file tax return or to pay tax (26 U.S.C. § 6651); failure by individual to pay estimated income tax (26 U.S.C. § 6654); failure by corporation to pay estimated income tax (26 U.S.C. § 6655); Prompt Payment Act (31 U.S.C. § 3902 (a), (b), and (f), and 31 U.S.C. § 3904); Fair Labor Standards Act of 1938, as amended (29 U.S.C. § 206); Civil Service Retirement Act of 1930, as amended (5 U.S.C. §§ 5332 and 5343); Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. §§ 8422, 8423 and 8432); Social Security Act, as amended (26 U.S.C. §§ 3101 and 3121, and 42 U.S.C. § 430); Federal Employees Health Benefits Act of 1959, as amended (5 U.S.C. §§ 8905, 8906, and 8909); and Consolidated Appropriations Act, 2004, Pub. L. No. 108-199, 118 Stat. 3 (Jan. 23, 2004).

- Tested whether IRS's financial management systems substantially comply with the three requirements of the Federal Financial Management Improvement Act of 1996 (Pub. L. No. 104-208, div. A, § 101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996) (*codified* at 31 U.S.C. § 3512 note).

# Comments from the Internal Revenue Service



COMMISSIONER

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

April 15, 2005

Mr. Steven J. Sebastian  
Director  
Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Sebastian:

Thank you for the opportunity to review and comment on your draft report titled "Status of Recommendations from Financial Audits and Related Financial Management Reports" (GAO-05-393). My staff recently provided you with an update on the current status of the recommendations, and agree that you accurately incorporated this information in Appendix I of the draft report.

This year's document reports the status of 118 recommendations. We are pleased that you agreed to close 34 of the 76 recommendations open from the last update to this document. This closure rate demonstrates our commitment to successfully develop and implement resolutions to issues raised in GAO audits. This year's report also includes 42 new recommendations, which we have begun to aggressively address. For example, the IRS responsibly classified the 48 open recommendations on lockbox banks as a reportable condition and developed a comprehensive action plan to address these recommendations. These actions include partnering with Treasury's Financial Management Service to align lockbox bank contractual requirements with IRS' physical security policies. We will monitor this plan through implementation.

I appreciate your continued support and commitment to work with the IRS to ensure that our corrective actions appropriately address the weaknesses identified in your recommendations. I want to specifically commend your staff on their willingness to communicate directly with our business owners on each recommendation and corrective action. We believe the information exchanged was crucial to achieving the understanding necessary for effective closure of the recommendations.

If you have any questions or would like to discuss this report further, please contact me, or Janice Lambert, Chief Financial Officer, at (202) 622-6400.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark W. Everson".

Mark W. Everson

# GAO Contact and Staff Acknowledgments

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## GAO Contacts

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## Acknowledgments

In addition to the persons named above, Chuck Fox, William Cordrey, Charles Payton, Patricia Blumenthal, Gloria Cano, Nina Crocker, John Davis, Alain Dubois, David Elder, Valerie Freeman, John Gates, and Angel Sharma made key contributions to this report.

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