Letter Report: Improvements Are Needed in the Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan

August 2000

Reference Number: 2000-10-105

INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 3, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

Pamela J. Gardiner

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Letter Report – Improvements Are Needed in the Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan

This report presents the results of our review of the Internal Revenue Service's (IRS) Federal Financial Management Improvement Act of 1996 (FFMIA) Remediation Plan. Our objective was to review the IRS' December 31, 1999, remediation plan to: 1) ensure all FFMIA deficiencies reported in the Fiscal Years (FY) 1997 and 1998 IRS Financial Statement Audit reports were addressed, 2) the remediation plan was prepared in accordance with the FFMIA and Office of Management and Budget (OMB) guidance, and 3) the plan was consistent with other Treasury Bureau plans.

In summary, we found that the remediation plan does not fully comply with the requirements of the FFMIA in all instances. The plan does not include or is not clear on all reported weaknesses, target dates were not always identified or exceeded the three-year time frame without the OMB's concurrence, and resource commitments were not always identified or were unclear. As a result, the IRS cannot ensure that all financial management weaknesses are adequately and timely resolved.

We recommended that IRS management ensure that reported weaknesses are clearly included in the remediation plan, and target dates and resource commitments are clearly identified for each weakness. We also recommended that IRS management promptly notify in writing to the Department of the Treasury all target dates that exceed the three-year limit so that the Department can seek concurrence from the Director of the OMB.

Overall, Chief Financial Officer management agreed to the recommendations presented in this report. However, they did indicate that they believed the lack of a standardized general ledger was adequately addressed in the plan. Nonetheless, they took further action to clarify this issue, which satisfied our recommendation. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Objective and Scope

This audit was initiated to assess the Internal Revenue Service's (IRS) compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)[1] requirements for preparing a remediation plan to correct identified financial management weaknesses.

Our audit objective was to review the current remediation plan to ensure that all FFMIA deficiencies reported in the Fiscal Years (FY) 1997 and 1998 IRS Financial Statement Audit reports were addressed, the remediation plan was prepared in accordance with the FFMIA and Office of Management and Budget (OMB) guidance, and the plan was consistent with other Treasury Bureau plans. This review was conducted as part of an agency-wide review of all Treasury bureaus. The Treasury Inspector General for Tax Administration (TIGTA) reviewed the IRS, and the Treasury Office of Inspector General (OIG) reviewed the remaining bureaus.

Our audit work was performed in the National Office, Office of the Chief Financial Officer (CFO). This audit was performed in February and March 2000 in accordance with *Government Auditing Standards*.

We will be conducting a more detailed follow-on review to evaluate the effectiveness of the remedies and the progress the IRS is making in implementing the remediation plan.

Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List.

[1] 31 U.S.C. 3512.

Background

The FFMIA emphasizes certain financial management system requirements that are established by Executive Branch policies. The Act also establishes new requirements for auditors to report on agency compliance with these basic requirements and for agency heads to correct deficiencies within a certain time period.

Each agency is required to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger[2] at the transaction level. Further, if the head of the agency determines that the agency's financial management systems do not comply with the above requirements, the head of the agency, in consultation with the Director of the OMB, shall establish a remediation plan. The remediation plan should include resources, remedies, and intermediate dates necessary to bring the agency's financial management systems into substantial compliance.

The General Accounting Office (GAO) and the Treasury OIG have identified numerous internal control weaknesses in the IRS' financial operations during their audits of the annual financial statements. The GAO reported material weaknesses in the IRS' reporting of unpaid assessments, refunds, property and equipment, and accounting for liabilities and accrued expenses. Based on the above material weaknesses, the IRS' financial systems did not substantially comply with the FFMIA requirements, and the IRS was required to prepare a remediation plan.

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[2] The United States Government Standard General Ledger provides a uniform Chart of Accounts to be used in standardizing federal agency accounting that supports the preparation of standard external reports.

As required by the FFMIA, the IRS prepared a remediation plan. The plan was separated into the two major components of the IRS' financial systems--Custodial and Administrative. The Department of the Treasury developed a standard template to be used by its bureaus to ensure consistency. The CFO modified the format of the standard template to meet its unique needs. The Department reviewed and approved this modification.

The remedies included in the plan were developed by the organizations that would be most responsible for correcting them. For example, weaknesses related to the IRS' computer modernization plans were the responsibility of the Chief Information Officer. Each organization is responsible for identifying applicable remedies, resources, and target dates, as well as tracking the status of the weakness. Each designated IRS organization is also responsible for reporting the implementation status of each weakness to the CFO.

Results

The overall methodology used by the CFO to develop the remediation plan was reasonable and is consistent with the Department of the Treasury's standard template. The remedies that are included in the remediation plan appear to be sound, directly address the reported weaknesses, and provide long-term solutions.

However, the remediation plan does not fully comply with the requirements of the FFMIA in all instances. Specifically, the plan does not include or is not clear on all reported weaknesses, target dates were not always identified or exceeded the three-year time frame without the OMB's concurrence, and resource commitments were not always identified or were unclear.

The Remediation Plan Does Not Fully Comply With the Requirements of the Federal Financial Management Improvement Act in All Instances

The remediation plan does not include or is not clear on all reported weaknesses

The remediation plan does not include or is not clear on all GAO reported weaknesses.

The GAO reviewed the remediation plan during its FY 1999 IRS financial statement audit and reported that two weaknesses identified in prior reports were either not incorporated or not clearly incorporated. The plan does not address the inability to report cost accounting information. Further, the plan does not clearly address the lack of a general ledger that complies with the United States Government Standard General Ledger. Our audit work confirmed the non-inclusion and lack of clarity of these two weaknesses.

The FFMIA requires that a remediation plan be established once the head of the agency determines that the agency's financial management systems are not in compliance. Additionally, OMB Circular A-11, *Preparing and Submitting Budget Estimates*, states that initiatives comprising an agency's FFMIA remediation plan must be identified and include resources, remedies, and target dates to bring the agency into compliance. In response to the financial statement audit reports, the IRS agreed with the weaknesses identified and that the IRS' financial management systems were not in compliance.

The CFO's staff advised TIGTA that the prior year weakness concerning cost accounting information was inadvertently omitted from the remediation plan and the weakness concerning the United States Government Standard General Ledger was not clearly presented in the plan. The CFO stated that he will ensure that these weaknesses, along with any new weaknesses identified from the FY 1999 financial statement audit, are clearly incorporated in the next quarterly update of the remediation plan.

By not clearly including all reported financial management weaknesses in the remediation plan, the IRS cannot assure itself that it will be able to bring its financial management systems into compliance with the requirements of the FFMIA.

Target dates were not always identified or exceeded required time frames

Remediation plan target dates were not always established or were not approved when exceeding required time frames.

We identified weaknesses that do not meet the preparation requirements of the FFMIA in that some target dates for the remedies were not identified or exceeded the three-year time frame without concurrence from the OMB. The remediation plan identifies 47 weaknesses (38 custodial and 9 administrative). Eight weaknesses identified from the custodial plan had target dates that were indicated as "to be determined" or were set past the three-year limit. In the administrative plan, a target date for one of the weaknesses was indicated as "ongoing."

The issues concerning target dates not including the requisite level of detail or exceeding the three-year requirement, without OMB concurrence, have been communicated in the past. The Treasury Deputy CFO conducted a review of the remediation plan that was submitted after the FY 1997 audit and identified the same issues.

Section 803 (c)(4) of the FFMIA states that a remediation plan shall bring the agency's financial management systems into substantial compliance within three years, otherwise concurrence of the extension must be requested from the Director of the OMB. In addition, if compliance cannot be achieved within the required time frame, the agency must designate an official who is responsible for bringing the agency's financial management systems into compliance.

The CFO's staff advised that, due to the complexity of certain remedies, the subject target dates were not specifically identified. Also, while the Department of the Treasury is ultimately responsible for obtaining the

OMB's concurrence for all remedies that exceed the three-year limit, the CFO did not communicate in writing to the Department the need to obtain such concurrence. The Deputy CFO, however, advised that discussions were held at the Departmental level on this matter.

By not identifying specific target dates for all remedial actions and setting target dates that exceed the three-year limit without the OMB's concurrence, the IRS cannot assure itself that remedial actions will timely address and correct reported financial management weaknesses.

Resource commitments were not always identified or were unclear

Resource commitments were not made for 20 weaknesses because the required resources were unknown.

We identified 11 weaknesses from the custodial plan for which resources were not determined or were unclear. Further, no resources were indicated for any of the nine weaknesses listed in the administrative plan. As a result, 20 of the 47 weaknesses lacked resource commitments.

The OMB Circular A-11 states that initiatives comprising an agency's FFMIA remediation plan must be identified and include resources, remedies, and target dates to bring the agency into substantial compliance.

In discussions we held with the CFO's staff, they indicated that resources were not identified for several remedies because the required resources were unknown.

The lack of resources included in the plan has been communicated in the past. The Treasury Deputy CFO conducted a review of the remediation plan that was submitted after the FY 1997 audit and identified the same issue.

By not determining the extent of resources needed to fully implement remedial actions, the IRS cannot effectively evaluate the commitments needed to correct cited weaknesses and avoid further non-compliance with the requirements of the FFMIA.

Recommendations

1. The CFO should ensure all weaknesses identified in the financial statement audit reports are included in the remediation plan, and are clearly stated.

   Management's Response: CFO management will include the lack of cost accounting information in subsequent remediation plans until this non-compliance is adequately addressed. However, they believe the IRS' lack of a standard general ledger is adequately addressed in their plan. Management's complete response to the draft report is included as Appendix III.

   Office of Audit Comment: Although IRS management responded that they believed the issue of the standard general ledger was adequately addressed in their remediation plan, they did add an additional item (# 40) to the plan, which specifically addresses the cited weakness and also satisfies our recommendation on clarity.

2. The CFO should ensure that target dates are identified for all remedial actions and that the Department of the Treasury is promptly notified in writing of all target dates that exceed the three-year limit so that the Department can seek concurrence from the Director of the OMB.

   Management's Response: CFO management will identify target dates for remedial actions. Also, many of the target dates established in the plan exceed three years, and OMB concurrence has not been obtained as required by the FFMIA. However, they have been unable to identify the procedure for securing OMB approval and have raised this issue with the Department and the OMB.

3. The CFO, in consultation with IRS officials responsible for the corresponding weaknesses, should determine the resources needed to fully implement all remedial actions.

Management's Response: CFO management is taking actions to ensure that resources necessary to remedy FFMIA non-compliance are addressed in greater detail in their plans.

Conclusion

Overall, the IRS remediation plan is reasonable and is consistent with the Department of the Treasury's standard template. However, the remediation plan does not fully comply with FFMIA requirements. Specifically, all reported weaknesses were not included or not clearly included in the plan, target dates were not identified or exceeded the three-year time frame without the OMB's concurrence, and resource commitments were not always identified or were unclear.

Without fully complying with FFMIA remediation plan preparation requirements, the IRS cannot ensure that all financial management weaknesses are adequately and timely resolved.

Appendix I

Major Contributors to This Report

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
John Wright, Director
Thomas Brunetto, Audit Manager
Jill Moore, Senior Auditor
Melinda Pope, Senior Auditor
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Appendix II

Report Distribution List

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Chief, Management and Finance M
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Office of the Chief Counsel CC
Office of Management Controls CFO:A:M
Director for Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis M:O
Audit Liaison: Chief Financial Officer CFO

Appendix III

Management's Response to the Draft Report

DEPUTY COMMISSIONER

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

July 19, 2000

RECEIVED
JUL 20 2000

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Bob Wenzel Bob Wenzel
Deputy Commissioner Operations

SUBJECT: Draft Letter Report – Improvements Are Needed in the Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan

Thank you for the opportunity to review your draft report on IRS' Federal Financial Management Improvement Act (FMFIA) Remediation Plan. Attached is our response to your findings and recommendations.

A summary of our response to each of your findings is noted below:

1) The Remediation Plan does not include, or is not clear, on all reported weaknesses.

We agree that we did not identify the lack of cost accounting information in our December 31, 1999, Remediation Plan. Such a system has been under development for several years and will be reported in quarterly status reports until this non-compliance is adequately addressed. However, we believe IRS' lack of a standardized general ledger (SGL) is adequately addressed in our Plan. Item 11 of our Plan identifies using a data warehouse that feeds into a commercial off-the-shelf SGL product as the remedy for IRS' financial management reporting issues, including adherence to all SGL criteria.

2) Target dates were not always identified or exceeded required timeframes.

We agree that target dates were not always identified. Since the December 31, 1999, Plan, we are identifying target dates for related remedial actions. Also, as you observed, many of the target dates established in our Plan exceed three years, and OMB concurrence has not been obtained as required by the FMFIA. However, to date we have been unable to identify the procedure for securing OMB approval of longer timeframes and have raised this issue with the Department and OMB.

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3) Resource commitments were not always identified or were unclear.

   We agree that resource commitments have not always been clear. We are taking action to assure the resources necessary to remedy FMFIA non-compliance are addressed in greater detail in our plans.

We will continue to seek ways to improve the quality and utility of our Remediation Plan, not only to meet the legislative mandate but to establish a workable plan for attaining FMFIA-compliant systems throughout our organization.

If you have any questions, please contact Lawrence W. Rogers, Chief Financial Officer, or your staff may contact Mark S. Brey at (301) 492-5400, extension 337.

Attachment

Internal Revenue Service

Response to Findings and Recommendations
Treasury Inspector General for Tax Administration (TIGTA) Draft Letter Report
Audit # 200010019

Purpose

This report contains the responses of the Internal Revenue Service (IRS) to the May 17 draft letter report issued by TIGTA entitled *Improvements Are Needed in the Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan*. This draft letter documented the results of TIGTA's Phase 1 review and assessment of IRS compliance with the Federal Financial Management Improvement Act (FFMIA). In particular, TIGTA's review focused on IRS compliance with FFMIA requirements to prepare a remediation plan to correct identified financial management weaknesses.

The draft letter report documented three areas in which IRS's remediation plan does not fully comply with FFMIA requirements:

1. The plan does not include, or is not clear, on all reported weaknesses;
2. The target dates were not always identified or exceeded the three-year time frame without OMB's concurrence; and
3. The resource commitments were not always identified or were unclear.

We address each of these issues below.

Issue

TIGTA Draft Letter Result # 1: The remediation plan does not include, or is not clear, on all reported weaknesses.

IRS Response

The draft report says our remediation plan does not address IRS's inability to report cost accounting information or the lack of a general ledger that complies with the United States Government Standard General Ledger (SGL).

We agree we did not identify the lack of cost accounting information in the December 31, 1999, remediation plan. Therefore, we included it in the remediation plan status for the quarter ending March 31, 2000. It will appear in future quarterly status reports until the non-compliance is adequately addressed. For some time, we have recognized the need and planned for a cost accounting system that meets relevant federal systems and reporting standards.

We are developing a cost accounting system and have defined and documented some user requirements. We analyzed our legacy systems to see if they can provide the necessary data to feed the system. These remedies and others are presented in greater detail in the June 30, 2000, remedation plan status.

Regarding the SGL concern, we believe this issue is addressed in the plan. The lack of an SGL to meet custodial revenue accounting needs is addressed within the broad issue of financial reporting addressed in item # 11 in the plan. Specifically, item # 11 documents the inability of the IRS to routinely produce "timely and reliable financial management reports for

Internal Revenue Service

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internal and external users." Incorporating a SGL at the transaction level is a benchmark for system success and essential to financial management reporting systems within the federal environment for internal and external users.

Item # 11 identifies using a data warehouse that feeds into a commercial off-the-shelf (COTS) SGL product as the remedy for IRS's financial management reporting issues including adherence to all SGL criteria. We have bought and installed this COTS product and are now testing it. The data warehousing approach replaced an earlier initiative entitled "Phase 0," which also was the proposed solution for meeting IRS's financial management reporting needs and included relevant SGL criteria.

Design and development of the data warehouse as well as the earlier Phase 0 initiative addressed all SGL reporting needs and documented these needs. Design and development documents, incorporating suitable SGL criteria, were approved in formal life cycle reviews and agreed to by a wide segment of stakeholders. As a premodernization initiative in the 1997 *Modernization Blueprint,* Phase 0 identified SGL reporting criteria as a necessary part of the reporting system. These SGL reporting criteria were then included in data warehousing.

Issue

TIGTA Draft Letter Result # 2: Target dates were not always identified or exceeded required timeframes.

IRS Response

We agree with the draft letter that target dates were not always identified or exceeded required time frames. Since the December 31, 1999, plan, we are identifying target dates for related remedies. Executives and staff responsible for daily monitoring and compliance know the importance of meeting target dates. We identified additional target dates in the June 30, 2000, remediation plan status report.

Many of the target dates established in the plan exceeded three years, which under FFMIA requires OMB concurrence with such a time frame. We have told executives at the Department level that time frames exceeding three years exist.

On one occasion, we contacted OMB itself to find what process, if any, existed to obtain formal approval for time frames exceeding three years. We were unable identify a system, and thus far, we have not obtained formal OMB approval.

Internal Revenue Service

Response to Findings and Recommendations
Treasury Inspector General for Tax Administration (TIGTA) Draft Letter Report
Audit # 200010019

Issue	*TIGTA Draft Letter Result # 3: Resource commitments were not always identified or were unclear.*
IRS Response	We are providing greater detail on resource commitments to ensure they are clearly described. As with the effort to provide greater detail on target dates, we are stressing to executives as well as staff persons the importance of documented resource commitments to remedy FFMIA non-compliance. The June 30 status report reflected these improvements.