

**Progress Has Been Made in Improving the
Financial Management of Reimbursable Work
Authorizations**

October 2004

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

October 26, 2004

MEMORANDUM FOR CHIEF FINANCIAL OFFICER

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Progress Has Been Made in Improving the
Financial Management of Reimbursable Work Authorizations
(Audit # 200410022)

This report presents the results of our review of the financial management of Reimbursable Work Authorizations (RWA). The overall objective of this review was to evaluate selected aspects of the financial management of RWAs. Specifically, we evaluated procedures related to the timely posting of RWA-related Intra-Governmental Payment and Collection (IPAC) System charges and the periodic monitoring of open RWAs performed by the Office of the Chief Financial Officer (CFO). We did not evaluate either the preparation of RWAs or the year-end accrual of RWA expenditures. We also did not review any actions related to the detailed administration of the RWAs, which is performed by financial plan managers in the business units and operating divisions. This review was performed as part of our Annual Audit Plan and at the request of the CFO.

In summary, the Internal Revenue Service (IRS) has taken a number of positive steps to improve the financial management of RWAs. Specifically, controls were enhanced and procedures were revised to better ensure the timely posting of RWA-related charges and the timely deobligation of unneeded open obligations related to RWAs.

As a result of these steps, the age of unpostable IPAC System charges in suspense awaiting further research decreased from an average of 8 months in December 2001 to an average of 2 months as of March 31, 2004. Unpostable RWA-related IPAC System charges in suspense as of April 30, 2004, were resolved within an average of 28 calendar days in a sample of 20 charges. The 20 charges we reviewed represented 45 percent of the total dollar value of RWA-related charges in suspense as of April 30, 2004.

In addition, procedures related to quarterly certifications of open obligations by field plan managers, including those related to RWAs, were recently revised. The revised procedures, which first affected certifications due in July 2004, emphasize the need for the certification to be supported by credible evidence and require the thorough evaluation of obligations open more than 18 months. These procedures, if implemented as designed, should ensure long periods of inactivity are adequately addressed and planned completion dates are documented – 2 issues we identified in our limited review of a sample of 20 RWAs open 18 months or more.

We made no recommendations in this report. However, management officials reviewed the report and agreed with its contents.

Copies of this report are also being sent to the IRS managers affected by the report. Please contact me at (202) 622-6510 if you have any questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Background

The Federal Property and Administrative Services Act of 1949¹ gave the General Services Administration (GSA) responsibility for managing the Federal Government's real property. The Public Buildings Service (PBS) was established by the Public Building Act of 1959,² which sets forth the functions of the PBS, including "providing for repairs and alterations of Government owned or leased space on a reimbursable basis." Federal agencies, such as the Internal Revenue Service (IRS), prepare a GSA Reimbursable Work Authorization (RWA) (Form 2957) whenever repairs or alterations to space are needed. The RWA specifies the work required, requested start and completion dates, and total dollar amount allocated for the work requested.

As the GSA completes the work requested, it periodically charges the IRS via the Intra-Governmental Payment and Collection (IPAC) System. The IPAC System is one of the major components of the Government On-Line Accounting Link System, and its primary purpose is to provide a standardized interagency fund transfer mechanism for Federal Program Agencies. When an IPAC System charge is received, the Beckley Finance Center (BFC) matches the charge to a receipt and acceptance certification from the applicable field plan manager and posts the charge to the Automated Financial System.³ Charges which cannot be posted immediately are placed in a suspense account pending receipt of the GSA work order receipt and acceptance certification from the field plan manager. The IRS business unit plan managers are also responsible for periodically verifying the continued validity of outstanding RWA-related obligations.

The timely receipt and acceptance of goods and/or services is a critical component of effective financial management. Receipt is acknowledgment that goods were received and/or services were rendered. Acceptance is an acknowledgment by an authorized Federal Government official that goods

¹ 40 U.S.C. § 472 (1949).

² 40 U.S.C. § 601-619 (1959).

³ An integrated accounting and budgeting system designed to provide administrative funds control, along with the ability to access accurate financial information timely.

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received and/or services rendered conform to the contract requirements.

The Chief Financial Officer (CFO) requested that the Treasury Inspector General for Tax Administration review the financial management of RWAs. The CFO was primarily concerned with the excessive age of RWA-related charges in the IRS suspense account.

This limited-scope review was performed at the BFC, Beckley, West Virginia, during the period May through July 2004. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Controls Over Timely Posting of Reimbursable Work Authorizations-Related Charges Have Improved

The average age of unpostable IPAC System charges which had to be placed in the IRS suspense account has been substantially reduced. An analysis by the BFC Quality Assurance section indicated that the age of unpostable items in suspense decreased from an average age of 8 months in December 2001 to an average age of 2 months as of March 31, 2004.

In addition, unpostable RWA-related IPAC System charges in suspense as of April 30, 2004, were resolved within an average of 28 calendar days in a sample of 20 charges we reviewed. The 20 RWA charges reviewed represented 45 percent of the total dollar value of RWA-related charges in suspense as of April 30, 2004.

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*⁴ require that transactions and other significant events be promptly recorded and properly classified. This is to ensure pertinent information maintains its relevance and value to management in controlling operations and making decisions.

Improvements in the efficiency in resolving unpostable RWA-related IPAC System charges which had to be placed in suspense for long periods of time are attributable to a

⁴ GAO/AIMD-00-21.3.1, dated November 1999.

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number of factors. First, the BFC Quality Assurance section performed a series of reviews from June 2002 through July 2003 to determine the causes for the delayed posting of IPAC System charges. The results of the quality reviews were 14 short-term recommendations to improve the processing of IPAC System charges. Second, in October 2003, the IRS BFC prepared revised procedures to address the financial management of the RWAs. These procedures specified the creation of an RWA database to aid in researching and reconciling the RWAs, as well as to provide for a current list of RWA contracts and contacts.

The Internal Revenue Service Recently Revised Its Procedures as Part of an Ongoing Effort to Better Ensure Timely Deobligations, Including Those Related to Reimbursable Work Authorizations

To ensure unneeded obligations, including those related to RWAs, are timely deobligated, IRS business unit plan managers are required to quarterly certify the continued validity of outstanding obligations. However, this control has not always been completely effective, and the timely deobligation of outstanding obligations has been an ongoing area of concern for the IRS. In its April 26, 2004, report, *Improvements Needed in IRS' Internal Controls and Accounting Procedures*,⁵ the GAO found that the IRS did not always timely identify and deobligate outstanding obligations.

To improve the effectiveness of the quarterly certifications of open obligations, including those related to RWAs, the CFO recently enhanced IRS procedures. The enhanced procedures first affected certifications due in July 2004 and should help address 2 concerns we identified in our review of a sample of 20 RWAs open 18 months or more.

- First, although all 20 open RWAs sampled were timely certified in April 2004 as ongoing projects by the applicable plan manager, 8 (40 percent) had not had a charge by the GSA for work performed within the year preceding the certification. None of the eight certifications had an explanation for the long period of inactivity. The revised quarterly certification procedures specifically require that the review by field plan managers be supported by credible documented evidence and that particular attention be placed on the RWAs open

⁵ GAO-04-553R IRS Management Report.

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18 months or more at the time of the review.

Because of the limited-scope nature of our review, we did not follow up with the specific plan managers to further clarify the present status of the 20 projects we sampled.

- Second, information regarding the planned completion date of the project was not documented in 11 (55 percent) of 20 certifications reviewed. The absence of this type of information makes it more difficult for the CFO to assess the reliability of the certification and identify those obligations for which further inquiry of the applicable plan manager might be appropriate. This is especially true in cases for which the obligation has been open for an extended period of time. All 20 of the certifications we reviewed were based on a sample of RWA-related obligations open 18 or more months at the time of the certification. The revised quarterly certification procedures specifically require the financial plan manager to consider the specified period of performance when performing the certification on obligations open more than 18 months. The revised procedures also specify that credible evidence, such as an extended period of performance or an adjusted project completion date, is required to be documented in the certification.

Finally, the enhanced procedures also specify that the CFO will provide feedback to each business unit on not only the timeliness of the certifications but also on whether the certifications contained sufficient evidence to support the validity of the obligations. This feedback should further help ensure the revised certification procedures are implemented as designed.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this limited-scope review was to evaluate selected aspects of the financial management of Reimbursable Work Authorizations (RWA). Specifically, we evaluated procedures related to the timely posting of RWA-related Intra-Governmental Payment and Collection (IPAC) System charges and the periodic monitoring of open RWAs performed by the Office of the Chief Financial Officer. We did not evaluate either the preparation of RWAs or the year-end accrual of RWA expenditures. We also did not review any actions related to the detailed administration of the RWAs, which is performed by financial plan managers in the business units and operating divisions.

To accomplish our objective, we:

- I. Determined whether effective procedures are now in place to ensure the controlling and periodic monitoring of the RWAs.
 - A. Interviewed Beckley Finance Center (BFC) management to discuss the procedures for controlling and monitoring the RWAs.
 - B. Determined whether the BFC addresses RWA financial management as part of its quality assurance program.
 - C. Selected a sample of 20 RWAs open 18 months or more and determined whether they contained evidence of periodic reviews. We selected this sample judgmentally from the population of RWAs open at the time of our review on June 14, 2004. This sampling method was used because we did not intend to project the results. Internal Revenue Service records indicate there were 1,810 open RWAs as of June 14, 2004. The 20 RWAs we sampled represented 15 percent of the aggregate dollar value of this population.
- II. Determined whether the BFC Government Payables Unit has developed effective procedures to ensure the timely posting of RWA-related transactions to the general ledger.
 - A. Interviewed BFC Government Payables Unit management on the procedures for receiving and processing RWA accounting data.
 - B. Interviewed BFC personnel responsible for posting RWA charges to the general ledger.

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- C. Selected a sample of 20 unpostable RWA-related IPAC System charges in suspense as of April 30, 2004, and evaluated the timeliness of their resolution. We selected this sample judgmentally from the population of 370 RWA-related IPAC System charges in suspense as of April 30, 2004. This sampling method was used because we did not intend to project the results. The 20 RWA charges reviewed represented 45 percent of the total dollar value of RWA-related items in suspense as of April 30, 2004.
- III. Determined whether the BFC has effective controls to ensure the timely deobligation of the RWAs no longer needed.
- A. Interviewed BFC management regarding the procedures for deobligating the RWAs.
 - B. Evaluated the methodology used to deobligate funds.

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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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