United States General Accounting Office

GAO

Report to the Commissioner
Internal Revenue Service

February 1994

FINANCIAL MANAGEMENT

IRS Does Not Adequately Manage Its Operating Funds

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GAO

United States
General Accounting Office
Washington, D.C. 20548

150691

Accounting and Information
Management Division

B-254301

February 9, 1994

The Honorable Margaret Milner Richardson
Commissioner of Internal Revenue

Dear Ms. Richardson:

This report presents the results of our review of the Internal Revenue Service's (IRS) management of its $6.7 billion in fiscal year 1992 appropriated operating funds. We conducted this review as part of our financial statement audit of IRS pursuant to the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576).

This report contains recommendations to you. As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations. You should send the statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of this letter and to the Senate and House Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of this letter.

We are sending copies of this report to the Secretary of the Treasury; Director of the Office of Management and Budget; Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs, the Senate Committee on Finance, the House Committee on Government Operations, the House Committee on Ways and Means, the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, and the Subcommittee on Oversight of the House Committee on Ways and Means; the Chairman of the Joint Committee on Taxation; and other interested parties. Copies will be made available to others upon request.

Please contact me at (202) 512-9510 if you or your staff have any questions. Major contributors are listed in appendix III.

Sincerely yours,

Gregory M. Holloway

Gregory M. Holloway
Director, Civil Audits

Executive Summary

Purpose

The Internal Revenue Service (IRS) received appropriations of $6.7 billion in fiscal year 1992 to fund the cost of its operations. Appropriations increased to $7.1 billion in fiscal year 1993, and further increases are expected as IRS continues its ongoing Tax Systems Modernization effort and initiatives intended to increase taxpayer compliance.

GAO evaluated IRS' controls over the use of its operating funds to determine if they provided reasonable assurance that these funds were (1) managed and expended in accordance with the limitations and purposes specified by the Congress and (2) properly reported. GAO conducted this assessment as part of its audit of IRS' fiscal year 1992 financial statements, which it elected to perform under authority of the Chief Financial Officers (CFO) Act of 1990.

Background

IRS, a bureau of the Department of the Treasury, is the nation's largest revenue collector. IRS receives four annual congressional appropriations to fund its operating costs, which primarily consist of personnel costs and purchases of goods and services. IRS also administers other appropriations used primarily for payments to taxpayers. However, these appropriations are not available for funding IRS' operating costs and, therefore, are not discussed in this report.

Under the direction of the CFO, a position established by IRS in 1989, IRS controls and accounts for its operating funds at its national office and seven regional offices. Although GAO performed work at all eight of these locations, much of its detailed testing was performed at IRS' national office and central region, which, during fiscal year 1992, were using IRS' new administrative accounting system. By October 1, 1992, this new system had been implemented servicewide.

Results in Brief

GAO identified significant weaknesses in the systems and processes IRS used to manage, spend, account for, and report on its operating funds. GAO was unable to audit approximately $4.3 billion, or 64 percent, of the $6.7 billion in operating funds that IRS reported spending during fiscal year 1992 because IRS could not account for all of the funds. Although GAO tested transactions associated with the remaining $2.4 billion of reported spending, which were processed by IRS' new administrative accounting system, these tests identified significant control weaknesses that affected IRS' ability to comply with laws governing the use of its budget authority or properly report on such use. Specifically, (1) managers did not have current, reliable information concerning available budget authority, (2) significant delays existed in recording certain types of expenditures, and (3) reports used to monitor compliance with laws governing the use of budget authority contained unauthorized adjustments. In addition, IRS' reports included misclassifications of expenditures. Further, IRS did not periodically review and adjust its records to reflect changes in obligations and remove canceled appropriations or resolve billions of dollars in discrepancies between its records and Treasury's records.

Also, IRS could not ensure that expenditures for goods and services were proper because of fundamental control weaknesses in its payment processes, including a lack of proper review and approval of payments. In reviewing a sample of 280 payments to vendors, some of which had more than one of the noted errors, GAO determined that about 1.5 percent were duplicate payments, 40 percent were not supported by complete documentation and, therefore, may have been inappropriate, and about 59 percent were paid either late or earlier than allowed by federal payment timing guidance. Also, IRS either underpaid or did not pay interest owed for over 50 percent of the late payments in the sample. Further, in its review of the sample items, GAO identified 5 additional duplicate payments and 23 overpayments that were made to the same vendors but were not part of the sample.

Because of the weaknesses just described, IRS' records and reports on its operating funds were unreliable. Also, IRS' accounting systems were not designed to provide cost data to support Office of Management and Budget reporting requirements and did not provide necessary data to account for costs by program.

Principal Findings

Inadequate Controls Over the Use of Budget Authority

IRS managers did not have up-to-date and reliable information on how much of their appropriation balances were still available to be obligated and, thus, could not ensure that they complied with laws governing the use of budget authority. Because of deficiencies in IRS' systems, balances were updated only monthly rather than as transactions occurred. However, even if they had been updated more frequently, the balances would still have been unreliable because IRS did not promptly (1) resolve several billions of dollars of differences between its records and cash transactions and balances reported by Treasury, (2) investigate and properly record $53 million in payments for which sufficient information was initially unavailable to match payments against related obligations, and (3) review and correct errors in obligated balances. The reliability of IRS' financial reports was further diminished when, at fiscal year-end, IRS arbitrarily split the $53 million in unmatched payments equally among three appropriations and then recorded an unsupported receivable to eliminate the appearance that the budget authority for one appropriation had been exceeded.

Deficiencies in IRS' Payment Process

IRS made improper, late, and early payments for goods and services because review and approval procedures were not effective and payment documents were not always processed promptly. Further, IRS' effectiveness in making and timing payments was hampered by nonintegrated systems and critical features of the payment system not being fully used. In reviewing a sample of 280 payments totaling $42 million, GAO identified 4 duplicate payments. GAO's analysis of related documentation showed that vendors had notified IRS of an additional 5 duplicate payments and 23 overpayments which were not part of the sample. Also, GAO found that 81 of the 280 payments reviewed were paid after their due dates and 83 were paid earlier than necessary—more than 7 days prior to their due dates. These practices resulted in ineffective cash management.

Reports on Operating Funds Were Unreliable

Report reliability was further diminished because IRS systems had not been designed to report reliable budgetary and related spending information in budget categories required by the Office of Management and Budget. IRS' financial systems are designed for internal reporting purposes to account for costs by management activities, such as training. To develop reports by budget category for three of its appropriations, IRS converted information from its financial systems based on the percentage of budget authority that each management activity had received. However, there is no assurance that IRS' conversion method resulted in cost figures approximating actual costs incurred for each budget category. For the remaining appropriation, IRS relied on informal records maintained by various financial plan managers, records that were not reconciled to related records maintained in IRS' financial management systems. One effect of these practices was that information on $10 million reported in the President's Budget Submission to the Congress for fiscal year 1994 was misclassified among three of four budget categories.

Recommendations

GAO is recommending that the Commissioner of Internal Revenue direct the Chief Financial Officer to improve controls over operating funds to ensure that budget authority for operations is not exceeded; improve processes and controls to ensure that payments for goods and services are proper and timely; and improve systems and processes to ensure that reports on operating funds are reliable.

Agency Comments

In commenting on a draft of this report, IRS agreed with the concerns GAO reported and stated that it is making changes to correct and eliminate the deficiencies in its systems and processes. However, IRS did not provide specific responses to GAO's recommendations. GAO plans to evaluate the effectiveness of IRS' efforts as part of its ongoing audit of the IRS' fiscal year 1993 financial statements. IRS' comments are included in appendix I.

Contents

Abbreviations

AABES	Automated Accounting and Budget Execution System
AFS	Automated Financial System
CFO	Chief Financial Officer
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
GSA	General Services Administration
IRS	Internal Revenue Service
OMB	Office of Management and Budget
TSM	Tax Systems Modernization
TT&L	Treasury Tax and Loan

Introduction

This report presents our review of how the Internal Revenue Service (IRS), the nation's largest revenue collector, managed its $6.7 billion in operating appropriations for fiscal year 1992. The report discusses the effectiveness of IRS' systems and procedures intended to ensure that IRS (1) did not exceed its budget authority,[1] (2) properly spent its operating funds, and (3) accurately reported on the use of these funds to IRS management, the Department of the Treasury, the Congress, and the Office of Management and Budget (OMB).

We performed our review as part of our audit of IRS' fiscal year 1992 financial statements pursuant to the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). Under the act, IRS is 1 of 10 pilot agencies required to prepare financial statements and have them audited. This is one of a series of reports resulting from our audit. Appendix I contains a list of our previously issued reports.

Background

IRS, a bureau of the Department of the Treasury, receives four annual congressional appropriations to fund its operations. These appropriations are used for (1) administration and management, (2) processing tax returns and providing taxpayer assistance, (3) tax law enforcement, and (4) information systems. IRS also administers other appropriations used primarily for direct payments to taxpayers for such items as interest on refunds and earned income credit payments. However, these appropriations are not used to fund IRS' operating costs and, therefore, are not discussed in this report.

For fiscal year 1992, IRS reported operating costs of $6.7 billion, including $4.9 billion in personnel costs, $1.7 billion for goods and services, and $0.1 billion in reimbursed costs. IRS also reported that $262 million of its operating appropriations were unobligated as of September 30, 1992—$213 million of which its appropriations allowed to be carried over for use in future years and $49 million which expired. IRS' balances of unobligated operating appropriations as of September 30, 1992, are shown in table 1.1.

[1]Budget authority, which includes appropriations, borrowing authority, and contract authority, is the authority provided by law to enter into financial obligations that will result in immediate or future outlays of federal funds.

Table 1.1: IRS Unobligated Balances as of September 30, 1992

Dollars in millions

IRS operating appropriations	Total unobligated	Expired	Carryover
Administration and Management	$ 3.2	$ 2.5	$ 0.7
Processing Tax Returns and Assistance	29.0	15.3	13.7
Tax Law Enforcement	25.3	17.1	8.2
Information Systems	204.0	13.9	190.1
Total	**$261.5**	**$48.8**	**$212.7**

IRS' fiscal year 1993 operating appropriations increased to $7.1 billion, including funding for initiatives to increase taxpayer compliance, estimated at $150 million. Further increases are expected as IRS continues its ongoing Tax Systems Modernization (TSM) effort, intended to provide for the long-term modernization of its information systems, which it expects will cost $23.1 billion through 2008. Treasury, OMB, and the CFO Act each require IRS to report on the use of these operating funds.

To more effectively manage operating appropriations, IRS appointed a CFO in 1989. The CFO reports to the Commissioner and oversees a wide range of financial areas including budget, procurement, and administrative accounting systems. In 1990, IRS established the position of Assistant Commissioner for Finance/Controller to assist the CFO in overseeing financial management matters.

Under the direction of the CFO, IRS' financial management functions are performed in its national office and seven regions. Although regional managers report directly to the Service's Chief Operations Officer, they are also required to submit financial management information on their operations to the Controller for inclusion in servicewide financial reports.

As of October 1, 1992, IRS had implemented a new administrative accounting system, the Automated Financial System (AFS) to improve its control over the use of operating funds, payment processing, and financial reporting. However, only the national office and central region used AFS during fiscal year 1992. The six regions not on AFS during fiscal year 1992 used the Automated Accounting and Budget Execution System (AABES) to record their financial activity.

AFS was selected to replace AABES because, as IRS stated in its fiscal year 1992 report pursuant to the Federal Managers' Financial Integrity Act (FMFIA) of 1982 (Public Law 97-255), AABES was outdated and did not conform to current standards for financial management systems. In that report, IRS stated that AFS corrected reported FMFIA weaknesses related to AABES.

Objectives, Scope, and Methodology

As part of our audit of IRS' fiscal year 1992 financial statements, we assessed the effectiveness of the systems and internal controls that IRS used to manage its operating funds. Specifically, we determined whether such systems and controls provided reasonable assurance that

- budget authority was not exceeded,
- operating funds were properly spent for goods and services, and
- reports on the use of operating funds were reliable.

To assess controls over compliance with laws governing budget authority, we reviewed IRS' budgetary control policies and practices to determine if IRS had implemented procedures to prevent or detect obligations[2] and expenditures[3] that exceeded its budget authority. Also, we reviewed the effectiveness of procedures to review and adjust existing obligation balances.

To assess the effectiveness of IRS' systems and related internal controls over its procurement actions and payments for goods and services, we selected for examination 378 payments recorded in AFS, including all payments equal to or over $2 million, and a random selection of payments under $2 million. Of these 378 payments, 280 were to vendors and 98 were to federal agencies. Our sample was drawn from transactions for procured goods and services recorded as operating expenses in the AFS general ledger for the 11 months ended August 31, 1992. For each selected vendor payment, we examined available accounting and procurement records to determine whether IRS adhered to significant provisions of the Federal Acquisition Regulation, Federal Information Resources Management Regulation, Treasury Acquisition Procurement Regulation, IRS' internal control policies and procedures, and requirements of the Prompt Payment Act and OMB Circular A-125, "Prompt Payment." For each selected federal agency payment, we examined supporting documentation, such as invoices and obligation documents, to determine whether IRS adhered to its internal controls and policies.

[2]Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period.

[3]The term expenditure, with respect to provisions of the Anti-Deficiency Act, refers to the issuance of checks, disbursements of cash, or electronic transfer of funds made to liquidate an obligation.

We were unable to test procurement and payment controls in operation for the six IRS regions that used AABES during fiscal year 1992 because IRS could not reconcile the summary records to the system's detailed spending information for operating expenses. According to IRS records, the six regions that used AABES expended a total of $4.3 billion, or 64 percent, of IRS' $6.7 billion in operating appropriations. IRS discontinued AABES on October 1, 1992. Because of this audit scope limitation, our report focuses primarily on procurement and payment operations at IRS' national office and central region, which used AFS during fiscal year 1992.

To determine if IRS' reports on the use of operating funds were reliable, we (1) considered the results of the above procedures on the information reported in IRS' financial reports and (2) examined all IRS year-end reports to OMB, tracing each line item to the supporting accounting records. Also, we reviewed IRS' procedures for reporting data on actual obligations for fiscal year 1992 in the President's fiscal year 1994 Budget Submission to the Congress and interviewed personnel responsible for preparing these reports. We also compared budgetary information in IRS' fiscal year 1992 principal financial statements to the requirements of OMB Bulletin 93-2, "Form and Content of Agency Financial Statements," and traced line items to IRS' accounting records.

To supplement our findings, we reviewed relevant IRS Internal Audit Division and Treasury FMFIA reports. IRS provided written comments on a draft of this report. These comments are included in appendix I.

We conducted our review from October 1991 through May 1993 in accordance with generally accepted government auditing standards. We performed our work at IRS' national office in Washington, D.C., and seven regional offices.

IRS Had Weak Systems and Controls for Ensuring Compliance With Laws Governing the Use of Budget Authority

IRS did not have a reasonable basis for ensuring compliance with laws and regulations governing the use of budget authority because of weaknesses in its systems and controls over operating funds. Specifically, (1) managers did not have current information on available appropriations and quarterly budget apportionments, (2) significant delays occurred in recording certain types of expenditures against appropriations, and (3) reports contained unauthorized adjustments. In addition, IRS' reports included misclassifications of expenditures.

The Anti-Deficiency Act and OMB Circular A-34, "Instructions on Budget Execution," require agencies to establish controls to ensure that obligations and expenditures comply with the purpose and do not exceed the amount and time restrictions imposed in appropriations. More specifically, the act prohibits an officer or employee of the agency from making or authorizing an obligation or expenditure in excess of the amount available in the appropriation.

Systems Did Not Provide Current Data on Fund Availability

IRS managers could not reliably determine if funds were available to be obligated because IRS' systems did not provide current information on the balances of unobligated appropriations. IRS only updated information on budget authority to account for actual use of funds once a month, principally because its systems for maintaining budget information were not integrated with accounting systems used to process and record obligations and expenditures. Integrated systems could have provided for the automatic updating of both accounting and budget data based on the initial recording of a transaction in the accounting system.

The Anti-Deficiency Act and OMB regulations require the head of each agency to prescribe, by regulation, a system for administrative control of funds to ensure that obligations and expenditures do not exceed apportionments or appropriations. Once the Congress has enacted budget authority, OMB apportions or distributes the funds, typically quarterly, to each agency. Many agencies then prepare quarterly allotments[1] for their managers based on these apportionments.

IRS personnel responsible for approving the use of appropriations, known as financial plan managers, had to rely on their own informal records to determine fund availability due to the accounting system's inability to provide up-to-date information. However, because these informal records

[1]An allotment is an authorization by either the agency head or another authorized employee to subordinates to incur obligations within a specified amount.

were not consistently reconciled to the monthly reports, the managers did not have reasonable assurance that their data were reliable. Also, such duplicate records resulted in inefficient use of financial plan managers' time.

Managers were further hampered in effectively monitoring the availability of funds because, although IRS informed them of annual spending limits, it did not inform them of quarterly spending limits based on OMB's quarterly apportionments. As a result, IRS lacked, in both its accounting and budget systems and in managers' informal records, adequate controls to ensure that IRS did not exceed quarterly apportionments.

In early fiscal year 1993, IRS implemented software changes in AFS designed to address the problems discussed above. IRS informed us that financial plan managers received quarterly allotment data starting in fiscal year 1993 and that controls were established with the implementation of an integrated budget module within AFS to highlight any situation where additional obligations would cause IRS to exceed its quarterly apportionment. Further, according to IRS officials, enhancements to the new system provide personnel responsible for obligating funds daily information on available budget authority. Because these changes were implemented during fiscal year 1993, we have not assessed their effectiveness. However, these changes will not ensure the reliability of data on reported spending if IRS does not address the problems discussed in the following section.

IRS Did Not Promptly Record Expenditures Against Appropriations

IRS reported spending was unreliable because it did not promptly (1) resolve differences between its own records and cash transactions and balances reported by Treasury, (2) investigate and properly record expenditures for which sufficient information was initially unavailable, and (3) review and adjust obligations to appropriate amounts. Without accurate information on spending, IRS cannot determine if it exceeds its budget authority or provide reliable reports.

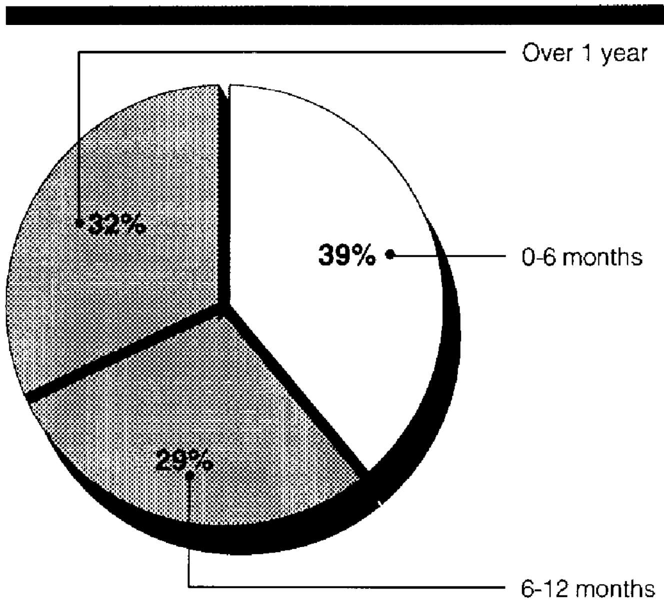
Differences in Cash Balances Were Not Resolved

Treasury regulations require IRS to reconcile its cash accounts to Treasury balances monthly. Reconciling cash accounts involves identifying differences between IRS and Treasury records, determining the reason for the differences, and finally, correcting the differences. Differences arise when either IRS or Treasury incorrectly records or delays recording of deposits and disbursements to IRS cash accounts.

IRS inappropriately reported, in its financial statements, cash balances based on Treasury's records without resolving significant differences between Treasury's and its own records. As of September 30, 1992, there were several billions of dollars in cumulative gross differences, originating as far back as 1986, some of which may partially or wholly offset each other. Correcting such differences should result in adjustments to either Treasury's or IRS' records or both. Also, to balance its accounts for these cash differences, IRS made unsupported adjustments to other line items, such as its accounts payable, in its fiscal year 1992 financial reports. Thus, information on its use of funds and financial reports required under the CFO Act were unreliable and of limited use in evaluating IRS' financial performance.

IRS' national office is responsible for identifying overall differences between IRS and Treasury records and for reporting these differences to appropriate regional offices for resolution. The regional offices are responsible for researching and making appropriate adjustments to correct the differences. As of September 30, 1992, the national office had identified and reported to its regional offices approximately 7,000 unmatched differences between IRS and Treasury records. However, IRS' national office did not have an effective follow-up system to ensure that these differences were investigated and adjusted by the regions within a reasonable amount of time. The national office stated that about 61 percent of its gross differences were older than 6 months and approximately 58 percent were attributable to payroll activities. Figure 2.1 shows how long IRS' differences had been outstanding as of September 30, 1992.

Figure 2.1: IRS' Cash Differences by Age



In addition, IRS had not resolved differences of $63 million at the end of fiscal year 1992 between Treasury's cash balances and the General Services Administration's (GSA) allocation account to IRS. Although appropriated to GSA, IRS is allowed to obligate and expend from this GSA account for the cost of maintaining GSA-owned buildings used by IRS. IRS is required to maintain records of the activity in this account and reconcile differences between its records and Treasury's. Because IRS did not resolve these differences, it had no assurance that its reports to GSA on the cash balance in the allocation account were accurate.

IRS' management was previously notified of its cash reconciliation problems. In June 1991, IRS' Internal Audit Division recommended[2] that the Controller provide additional instructions and oversight to ensure that cash reconciliations were properly performed. Although the Controller responded by providing technical assistance to regional offices on how to perform reconciliations, almost 2 years later the cash reconciliation problem still exists.

[2]Review of the Reconciliation of Administrative Accounts (Reference No. 013506, June 19, 1991).

Until IRS establishes a reliable means for periodically resolving its cash differences with Treasury and promptly adjusting its accounting records, it will not be able to produce reliable budgetary data and reports. In fiscal year 1993, IRS established a task force at its national office to investigate and correct cash differences between its accounting records and records maintained by Treasury.

Certain Disbursements Were Not Promptly Charged to Appropriations

To obtain assurance that funds were actually used for the purposes appropriated and within those dollar limits, agencies are required to promptly match disbursements against applicable obligations. IRS did not promptly investigate and properly record certain expenditures for which supporting documentation was initially unavailable to perform such a match. When IRS cannot determine which appropriation to charge its expenditures, it records them in a suspense account until they are investigated and charged to proper accounts. One way these expenditures occur is that another federal agency, such as GSA, uses funds from IRS' accounts at Treasury to pay for rent and utilities for IRS occupied buildings. However, until GSA provides IRS with an invoice supporting the amounts, IRS does not know which appropriation to charge. Of our sample of 98 payments to federal agencies, 25 for $17 million remained in the suspense account from 2 to 6 months after the funds were paid. As of September 30, 1992, IRS records indicated that the suspense account in AFS had a balance of $53 million that had not been applied to appropriations.

Instead of investigating all items in the suspense account and charging them to their proper appropriations at the end of fiscal year 1992, the national office arbitrarily charged one-third of the balance of the suspense account as of September 30, 1992, or $18 million, to each of three operating appropriations. The overall effect of this was that IRS had no assurance that they were charged against proper appropriations and, consequently, whether IRS' reported available budget authority was accurate. One result of arbitrarily charging appropriations was that IRS reported to Treasury and OMB that it had exceeded its spending limits in one appropriation. Upon inquiry from Treasury and OMB about the reported overspending, IRS recorded an unsupported receivable from another appropriation to eliminate the appearance that IRS had exceeded its authority.

An IRS official stated that amounts in suspense were not promptly resolved because of delays in receiving supporting documentation for the payments from the billing agencies and in reviewing this documentation. IRS also said that resolution was not prompt because it had instead allocated staffing resources to promptly pay commercial invoices to avoid interest payments. IRS informed us that it had hired a contractor to research and clear items in the suspense account in fiscal year 1993. However, we have not assessed the effectiveness of this effort. Until IRS investigates the items in the suspense account and charges them to the appropriate account, it cannot be sure that budget authority was not exceeded.

Reviews of Obligations Were Not Performed

Treasury's Financial Manual requires federal agencies to ensure that recorded obligations reflect amounts that are expected to be expended and that balances of such obligations be accurately reported to Treasury. Further, the National Defense Authorization Act for Fiscal Year 1991 (Public Law 101-510) requires IRS to remove canceled appropriations for fiscal years 1983 through 1985 from its accounting records by the end of fiscal year 1992. However, during fiscal year 1992, IRS did not consistently review and adjust obligated balances, which totaled $1.6 billion as of September 30, 1992, to reflect current estimates of amounts that would ultimately be expended, nor did it remove expired appropriation balances from its general ledger.

As of fiscal year-end, the IRS national office did not review obligations, and the central region began, but did not complete, a review of obligations. Any needed adjustments to obligations would directly affect the balance of appropriations available for obligation, and the balances of available funds reported by IRS. However, an IRS official told us that the national office did not review and adjust obligations during fiscal year 1992 because such actions were not considered a priority. Also, IRS' new general ledger system did not generate a list of open obligations for the central region until August 1992, too late for the central region to complete its review of its obligations.

Further, IRS did not remove canceled appropriations from its accounting records by the end of the fiscal year. IRS stated that it did not do this because of difficulties in completing its 1992 fiscal year-end closing procedures. Because these appropriations were not removed, IRS records inappropriately showed that this canceled budget authority was still available.

Recorded Transactions Were Unauthorized and Improperly Classified

IRS' reported spending was susceptible to unauthorized adjustments because it did not have adequate systems and controls to ensure that all journal entries were properly approved and entered into its financial records. Further, IRS expenditures were charged to inappropriate accounts due to a lack of adequate controls over the assignment of accounting information to its transactions. Consequently, IRS did not have assurance that its reports accurately reported how funds had been used.

We noted instances where journal vouchers prepared at the national office to consolidate and correct IRS' accounts did not contain evidence that such journal vouchers were processed according to IRS' policy. Specifically, out of 421 journal vouchers prepared at the national office during fiscal year 1992, 400 did not have evidence of supervisory approval; 65 did not contain a preparer's name; and 290 did not indicate whether controls over the accuracy of data entry, such as data verification by an individual other than the person who keyed in the transaction, were applied.

IRS informed us that, under the new AFS system implemented on October 1, 1992, the entry of a journal voucher requires three levels of electronic approval, including supervisory approval, second-line supervisory approval, and the financial systems office approval, prior to processing. We have not assessed the effectiveness of these new processes.

In our sample of 280 payments, we also found 12 instances in which IRS inappropriately classified expenditures. For example, IRS recorded a $46,694 invoice for both maintenance ($19,662) and lease ($27,032) of computer equipment as entirely maintenance expense.

IRS uses certain accounting information, such as (1) fiscal year, (2) appropriation, (3) activity, and (4) subobject class, to charge a procurement to a specific appropriation and type of expenditure. The accounting information, normally assigned by the financial plan managers, is included on all procurement requisitions. However, this information is not consistently reviewed by procurement and accounting personnel during processing. None of the inappropriate accounting data noted in our sample were identified either by the procurement or accounting staffs. While AFS has checks for certain invalid combinations of accounting information, this control could not detect data inappropriately recorded to otherwise valid accounts. To illustrate, in the earlier example involving the invoice for maintenance and lease of computer equipment, the control did not prevent this transaction from being processed because, although the codes were valid and the combination was acceptable, the incorrect expense classification was charged.

Conclusions

During fiscal year 1992, IRS' systems and controls had fundamental deficiencies that significantly impaired its ability to properly monitor, account for, and report on use of its operating funds. During fiscal year 1993, IRS instituted some new procedures intended to improve its fund control procedures. However, unless IRS routinely and promptly resolves differences between its records and Treasury's and properly records expenditures, IRS will be unable to reliably report on its use of operating funds or to determine if it exceeds its budget authority.

Recommendations

We recommend that the Commissioner of Internal Revenue direct the Chief Financial Officer to strengthen controls over IRS' operating funds by

- monitoring whether AFS effectively provides managers up-to-date information on available budget authority;
- promptly resolving differences between IRS and Treasury records of IRS' cash balances and adjusting accounts accordingly;
- promptly investigating and recording suspense account items to appropriate appropriation accounts;
- performing periodic reviews of obligations, adjusting the records for obligations to amounts expected to be paid, and removing expired appropriation balances from IRS records as stipulated by the National Defense Authorization Act for Fiscal Year 1991;
- monitoring compliance with IRS policies requiring approval of journal vouchers and enforcing controls intended to preclude data entry errors; and
- reviewing procurement transactions to ensure that accounting information assigned to these transactions accurately reflects the appropriate fiscal year, appropriation, activity, and subobject class.

Agency Comments

In commenting on a draft of this report, IRS agreed with our concerns, and stated that it was correcting and eliminating the deficiencies in its systems and processes. It did not, however, specifically address our recommendations. IRS' comments are included in appendix I.

Fundamental Deficiencies Existed in IRS' Procedures and Internal Controls for Payments

IRS' procedures and internal controls over the use of about $900 million in operating funds by its national office and central region for goods and services did not provide reasonable assurance that these funds were properly used and that related reports were reliable. IRS' national office and central region used about 49 percent and 6 percent, respectively, of IRS' operating funds designated for goods and services. Our analysis of IRS payments to vendors showed that IRS made (1) improper and unsupported payments, (2) made some payments before and others after their due dates, and (3) did not pay or paid too little interest on late payments. IRS' effectiveness in making and timing payments was hampered by nonintegrated systems and critical features of AFS not being fully used. Further, IRS' detailed records for the spending of about $800 million for goods and services by the six IRS regions that used AABES did not support the individual regions' summary records. Thus, we were unable to test those region's transactions.

IRS Made Improper and Unsupported Payments

IRS lacked controls for ensuring that payments to vendors were properly approved and supported by accurate and complete documentation, such as receipt and acceptance documentation. Consequently, IRS made duplicate payments and overpayments (improper payments) that were not identified by management. Our analysis of supporting documentation for our sample of 280 payments, totaling $42 million, to commercial vendors showed 32 improper payments for $524,000 and 112 payments for $17.2 million for which IRS could not provide complete supporting documentation. The improper payments resulted from the payment office's inadequate review of supporting documentation, IRS' inadequate guidance for processing and approving payments, and IRS' failure to integrate or reconcile its payment and procurement systems. IRS officials told us that some payments were made without complete supporting documentation to reduce its backlog of pending payments owed vendors for goods and services. For its 32 improper payments, IRS has either received or requested reimbursement from the vendors.

IRS Lacked Adequate Guidance and Oversight for Processing and Approving Payments

GAO's Title 7, "Fiscal Guidance," of its Policy and Procedures Manual for Guidance of Federal Agencies and IRS' procedures require the matching of the original vendor invoice to the related procurement order as well as the receipt and acceptance documentation prior to supervisory approval to pay. This is a critical control for preventing improper payments. However, at the national office, we found evidence of nonconformity with these procedures in the form of nine duplicate payments totaling $349,381. Four of these payments were included in our sample of payments, while the remaining five were noted during analysis of accounting and procurement records for the sample items. Vendors were paid twice for the same goods and services because IRS made payments based on copies of invoices and related documentation, such as procurement orders and receipt and acceptance documentation. For example, a vendor's $13,854 invoice was paid and a copy of the vendor invoice was subsequently used to process a duplicate payment. National office officials were not aware of the duplicate payments until either we or the vendors notified them.

Also at the national office, we found 23 overpayments for almost $175,000 to a single vendor since 1988. These overpayments occurred because IRS personnel mistakenly approved amounts for payment that were actually vendor credits owed by the vendor to IRS. IRS officials informed us that these overpayments resulted because staff responsible for processing payments were not provided adequate guidance and training on processing vendor credits. However, we found that these overpayments also resulted from a lack of supervision. Specifically, we found that the overpayments continued even after IRS' procurement personnel and the vendor brought them to the attention of supervisors responsible for approving the payments.

Although IRS' administrative accounting handbook includes general processing procedures for payments, the above examples point out the need for more detailed guidance to be provided to IRS personnel responsible for processing and approving payments. Such detailed instructions, and training related to application of the instructions, can provide personnel with a step-by-step process for performing their duties, particularly with respect to unusual items. Further, IRS' inappropriate payment processing practices also showed that supervisors did not provide the oversight and guidance needed to prevent improper payments from occurring.

IRS Did Not Maintain Support for Its Payments

We also found that IRS made payments without supporting documentation such as invoices, procurement orders, and evidence of receipt and acceptance. Federal guidelines require administrative accounting records for payments to be retained for 2 years. However, IRS could not provide supporting documentation for 112, or 40 percent, of the 280 payments to vendors included in our sample. These 112 payments which totaled $17.2 million, or 41 percent of the recorded value of vendor payments we examined, were made by the national office. As a result, IRS did not have reasonable assurance that these payments complied with the quantities and terms established by procurement orders and were for goods and services actually received and accepted.

For example, a $24,949 vendor invoice was inappropriately approved for payment and paid without evidence of receipt and acceptance 4 months after the vendor had notified IRS to ignore the invoice because most of the invoiced services had not been rendered. However, since IRS could not provide supporting documentation for the 112 payments in our sample, we were unable to determine whether such documentation was available when the payments were made or whether the documentation was subsequently lost, destroyed, or misplaced.

IRS officials told us that vendors were sometimes paid even if all supporting documentation typically required for payment was not available. The officials stated that this was done to reduce IRS' backlog of approximately 4,000 unpaid vendor invoices at the beginning of fiscal year 1992. While a task force assigned to eliminate the backlog completed its assignment in February 1992, we found that unsupported payments continued to be made throughout fiscal year 1992.

IRS Payments Were Not Properly Timed

The Prompt Payment Act requires federal entities to make payments on time, to pay interest when payments are late, and to take discounts only when payments are made on or before the discount date. OMB Circular A-125 "Prompt Payment," which implements the act, also calls for not paying commercial invoices too early. Our review of 280 national office and central region payments subject to the timing requirements of these regulations disclosed that 81 payments amounting to $15.5 million were late and 83 payments amounting to $15.5 million were earlier than necessary. IRS either incorrectly computed and underpaid interest or did not pay any interest for 56 of the 81 late payments. These ineffective cash management practices resulted in costs to the federal government due to lost interest earnings on early payments and additional interest expenses for late payments.

Payments Were Often Significantly Late

The 81 late payments we noted were paid an average of 34 days after their due dates. The Prompt Payment Act generally requires that a federal entity pay its bills within 30 days after (1) receiving an invoice or (2) receipt and acceptance of goods or services, whichever is later, unless other timing provisions are stated in the related contract. IRS, in its prompt payment report to Treasury, stated that its late payments were due to delays in the payment offices obtaining receiving reports.

IRS anticipated that AFS would reduce the number of late payments by automatically calculating an invoice's scheduled payment date based on the invoice receipt date and the receipt and acceptance dates for invoiced items. However, we found that for 70 of the 81 instances, staff did not accurately enter prompt payment related data in AFS. For these instances, either the invoice's receipt date or the invoiced items' receipt and acceptance date on the transaction's supporting documentation did not agree with AFS data. Thus, AFS could not accurately determine a payment's due date or determine if and how much interest was owed. For example, we found an instance where AFS did not identify a vendor payment as late and compute interest of $650 that was due because incorrect dates for both invoice receipt and receipt and acceptance of the invoiced item were entered in AFS. IRS' supervisory personnel told us that these discrepancies occurred because its staff lacked sufficient training and familiarity with AFS.

Interest Payments Were Inaccurate

The Prompt Payment Act requires interest to be paid through the transaction's actual payment date when payments are late. We recomputed IRS' interest payments for the 81 late payments in our sample and found that 56 were underpaid by at least $1.[1] IRS, in its prompt payment report to Treasury, stated that it paid about $673,000 of its operating funds for interest on late payments during fiscal year 1992, with $592,000 of that amount attributable to its national office and central region.

For AFS processed payments, IRS personnel stated that underpaid interest resulted from the system not computing interest through the payment's entire late period. AFS computed interest through scheduled payment dates which were generally 2 or 3 days before the actual payment date. As a result of our work, IRS reprogrammed AFS during May 1992 to compute interest through the transaction's projected actual payment date. This interest on IRS' late payments resulted in increased financing costs to the federal government. Although Treasury Tax and Loan (TT&L) accounts in commercial financial institutions[2] earn interest on TT&L account balances, the 7-percent average interest rate specified by the Secretary of the

[1]OMB Circular A-125's threshold for determining if interest on late payments should be paid is $1.

[2]Treasury invests a portion of its operating funds in depositories maintaining Tax and Loan accounts until the funds are needed for its operations.

Treasury for late payments was higher than the 3 percent average rate Treasury received on its TT&L account balances during fiscal year 1992.

We also noted instances where interest on manually processed payments was either not computed or inaccurately computed. For example, the national office did not pay $2,897 in interest on one late manual payment in our sample. We also found instances of inaccurate interest computations. For example, a $22,223 interest payment was understated by $974 because interest was not properly compounded every 30 days as required during the payment's 145-day late period. IRS, in its fiscal year 1992 prompt payment report to Treasury, stated that it did not pay $87,000 in interest due to administrative errors such as failing to compute interest.

Some Invoices Were Paid Too Early

Our analysis of IRS payments also showed that 83 were paid an average of 16 days before their due dates. Early payments result in lost interest earnings since funds are used instead of being invested in interest-bearing accounts. OMB Circular A-125 states that unless vendor discounts are cost-effective, an invoice should not be paid more than 7 days before its due date. This circular also permits an agency to make early payments when the agency head or designee has determined, on a case-by-case basis, that early payments are necessary. The circular also states that this authority must be used cautiously and that good cash management practices must be considered.

Although AFS automatically schedules payments in accordance with the requirements of OMB Circular A-125, an accounts payable supervisor at the national office decided to pay certain invoices early. The 83 payments' supporting documentation did not contain evidence of approval by the agency head or designee to pay early nor did it show why the early payments were made. IRS, in its fiscal year 1992 prompt payment report to Treasury, reported that it made over 93,100 early payments that were not approved by the agency head or designee.

Systems Could Be Enhanced and More Effectively Used

IRS' effectiveness in preventing and detecting improper payments and properly timing its payments was hampered because (1) AFS, the system used to process and record payments, and the procurement system were not integrated or reconciled and (2) critical features of AFS were not fully used.

IRS units receiving goods or services usually concurrently submit receipt and acceptance documentation to the payment and procurement offices, which enter this and other data such as amount to be paid in their separate systems. As discussed earlier, payment office personnel made data input errors which contributed to both improper and untimely payments. Although IRS could have periodically reconciled data in the two systems to identify potential payment errors, this was not done.

Integration of the payment and procurement systems could allow payments to be made within required time frames. In the short term, periodic reconciliations of the two systems' data can identify (1) payments made for invoices that were not certified for payment and (2) invoices which were certified for payment but not properly paid. However, such reconciliations are not required by IRS until its close-out process for completed contracts.

Also, IRS did not fully use capabilities of AFS designed to identify possible duplicate payments and properly time payments. One feature allows personnel responsible for making payments to scan all prior payments related to a specific procurement order. However, payment office personnel did not consistently enter optional data such as description of invoiced items or period of service, and thus they did not have a sufficiently detailed payment history which would be an effective basis for detecting and avoiding future duplicate payments.

Further, although AFS contained certain edit and validity checks, these were not designed to (1) prevent or identify duplicate payments and overpayments or (2) prevent unintended assignment of multiple vendor codes to a single vendor, which can contribute to duplicate payments.

AABES Detailed Records Did Not Support the Summary Records

The records of detailed spending information for operating expenses in the six IRS regions that used AABES for its administrative accounting functions did not support the summary records. Therefore, IRS did not have reasonable assurance that its AABES general ledger balances for operating expenses, which were used to provide financial information to management, Treasury, OMB, and the Congress, were complete and accurate.

Since IRS did not reconcile its detailed records to summary records, it was not aware that these records did not agree until we brought it to its attention. IRS then could not resolve the differences between its detailed and summary records which, for three regions, ranged from $9 million to $18 million. Thus, the scope of our audit work was limited in these six regions. In these six regions, IRS replaced AABES with AFS on October 1, 1992. IRS does not expect similar unresolved differences in AFS accounting records since the system features onetime transaction processing in which accepted transactions are simultaneously posted to the detailed and summary records. We did not note such differences in our audit of the national office and central region, which switched from AABES to AFS in October 1991 and May 1991, respectively.

Conclusions

Although IRS' new accounting system is intended to enhance its administrative accounting functions, weaknesses in related controls continue. This is primarily because IRS staff and supervisors were not provided sufficient training and guidance stressing the importance of properly reviewing, approving, and timing payments. IRS' effectiveness in making and timing payments also can benefit from systems enhancements and a better use of existing system capabilities. Further, since the scope of our audit was limited, we were unable to determine the effectiveness of procedures and internal controls in six regions.

Recommendations

We recommend that the Commissioner of Internal Revenue direct the Chief Financial Officer to develop and implement internal controls to ensure that IRS' payments are proper and timely. Specifically, the CFO should take the following actions.

- Provide (1) detailed written guidance for all payment transactions, including unusual items such as vendor credits, and (2) training to all personnel responsible for processing and approving payments.
- Revise procedures to require that vendor invoices, procurement orders, and receipt and acceptance documentation be matched prior to payment and that these documents be retained for 2 years.
- Revise procedures to incorporate the requirements that accurate receipt and acceptance data on invoiced items be obtained prior to payment and that supervisors ensure that these procedures are carried out.
- Revise document control procedures to require IRS units that actually receive goods or services to promptly forward receiving reports to payment offices so that payments can be promptly processed.
- Monitor manually computed interest on late payments to determine whether interest is accurately computed and paid.

- Enforce existing requirements that early payments be approved in accordance with OMB Circular A-125.
- Require payment and procurement personnel, until the integration of AFS and the procurement system is completed as planned, to periodically (monthly or quarterly) reconcile payment information maintained in AFS to amounts in the procurement records and promptly resolve noted discrepancies.
- Require the description and period of service for all invoiced items to be input in AFS by personnel responsible for processing payments, and enhance the edit and validity checks in AFS to help prevent and detect improper payments.

Agency Comments

In commenting on a draft of this report, IRS agreed with our concerns, and stated that it was correcting and eliminating the deficiencies in its systems and processes. It did not, however, specifically address our recommendations. IRS' comments are included in appendix I.

IRS Processes and Systems Did Not Support Reporting Needs

IRS' reports on the billions of dollars it spends each year to carry out its operations were unreliable because (1) IRS systems did not maintain actual costs by the budget categories[1] included in such reports and (2) its method for allocating costs to these budget categories did not result in amounts approximating actual cost. For three of its four appropriations, IRS reported cost information based on the percentage of appropriated funds that management activities received from each budget category instead of actual amounts incurred for each budget category. Further, IRS used unreliable, informal records to meet the more detailed congressional reporting requirements for its fourth appropriation—information systems—because its financial system did not accumulate costs at the project level. This resulted in misclassifications of costs for the fourth appropriation in the President's Budget Submission to the Congress for fiscal year 1994. Also, the underlying data used to prepare IRS reports, as noted in chapters two and three of this report, were inaccurate and incomplete. Consequently, IRS, Treasury, OMB, and the Congress did not have critical reliable information for managing and evaluating IRS activities.

Reporting on the Costs of IRS Programs Was Unreliable

OMB Bulletin 93-2, "Form and Content of Agency Financial Statements," requires budget and actual costs to be presented at the budget (category) activity code level. However, IRS financial systems did not identify the budget category for which costs were incurred. To report information in the format required by OMB in the President's Budget Submission to the Congress, IRS allocated costs of management activities maintained in its financial management system to budget categories for 3 of its 4 operating appropriations. However, this allocation was not a reliable methodology for estimating and reporting actual costs by budget activity. Further, IRS reported obligations in its fiscal year 1992 financial statements by management activity rather than the OMB required budget activity.

At the beginning of each fiscal year, IRS allocates appropriated amounts from budget categories to various management activities. For example, a portion of the budget category "Collection," which includes all costs related to IRS' tax collection activities, is allocated among several management activities, such as training, rent, and other expense classifications. After these allocations, each management activity will include spending authority from several budget categories. Although IRS' financial systems accumulated the actual costs for each of its management

[1] A budget category is a program, project or activity, within a budget account. For annually appropriated accounts, the categories are defined generally by the congressional committee reports and other documentation accompanying appropriations acts.

activities, its systems did not identify the budget categories for which the various management activities' costs were incurred. Therefore, to meet its requirement for reporting on the use of appropriations by budget category, IRS distributed actual costs recorded for each management activity among budget categories using the same proportions as the original budget allocation. For example, if 36 percent, or $13.6 million, of the total budget allocation of $38.2 million for training came from the "Collection" budget category, then 36 percent, or $8.7 million, of total fiscal year 1992 costs of $24.5 million incurred for training would be allocated to that budget category.

The allocation of costs by federal entities is common when reporting requirements for budget and actual costs differ from the basis used to record such costs in financial systems. In order to provide reasonable cost estimates, it is important that the allocation of costs be based on factors which reliably approximate actual costs. However, IRS had no assurance that its funds were actually used in the proportions reported for budget activities because its allocation method was conceptually flawed and it did not attempt to validate the results by analyzing the allocations to determine if they approximated actual costs. Because of these deficiencies, IRS reported obligations by management activities in its fiscal year 1992 financial statements instead of the budget activities required by OMB.

As part of its planned cost management system, IRS intends to develop procedures for allocating costs to its programs. The results of this effort could assist IRS in developing a rational basis for charging costs to its budget categories that would approximate actual costs. However, the cost management system is not expected to be fully implemented until fiscal year 1997.

Reporting Requirements for Information Systems Costs Were Not Met

In addition to the requirements of OMB Bulletin 93-2, IRS had to meet more detailed reporting requirements for its fourth operating appropriation—information systems. Primarily due to TSM, IRS is required to report on its information systems' costs by project to OMB and congressional committees. However, since IRS systems did not accumulate costs for goods and services at either the budget activity or project level, IRS relied on financial plan managers' informal records to satisfy these reporting requirements. Also, since actual labor costs by project were not maintained in IRS financial systems or in the plan managers' informal records, these costs were estimated based on an average cost per employee.

To ensure the accuracy of their data, individual financial plan managers were responsible for reconciling their detailed informal records to financial plan totals in IRS financial systems and resolving any differences. However, because the financial plan managers did not always perform these reconciliations, IRS had no assurance that these records were reliable. Based on reconciliations completed by budget personnel subsequent to the preparation of the President's Budget Submission to the Congress for fiscal year 1994, IRS found that $10 million of fiscal year 1992 costs reported were misclassified among three of the four budget categories in the information systems appropriation. Also, the use of informal records increased IRS' administrative burden in preparing reports. For example, for the information systems appropriation, budget personnel were required to enter data from the plan managers' records for each project into a separate data base in order to prepare the necessary reports.

To address some of these problems, IRS enhanced AFS to accumulate the actual costs of goods and services for TSM projects. The basis for this is accounting code data assigned to procurement orders which represent individual TSM projects. IRS began a pilot of this enhancement on April 1, 1992, in its national office and central region. On October 1, 1992, IRS implemented the enhancement servicewide for its information systems appropriation. However, as noted in chapter 2 of this report, the assignment of accounting code data is not consistently reviewed and, thus, is subject to misclassification and may not always be used.

Another component of cost—payroll—cannot currently be accumulated by project; however, beginning in fiscal year 1994, IRS began to accumulate such data in AFS. While accumulating TSM project costs may address some congressional reporting requirements, it does not fully address IRS' inability to record and report all costs by budget category.

Conclusions

IRS was not able to provide reliable reports on the cost of its programs to its managers, Treasury, OMB, and the Congress due to weaknesses in its processes and financial management systems. Weaknesses discussed in chapters two and three adversely affected IRS' ability to adequately report on its financial activities, and deficiencies in IRS' reporting processes and systems further contributed to IRS' inability to prepare reliable financial reports. As a result, these reports did not provide reliable information for users to effectively evaluate IRS' operations.

Recommendations

We recommend that the Commissioner of Internal Revenue direct the Chief Financial Officer to take the following actions.

- Establish procedures, based on budget categories approved by OMB, to develop reliable data on budget and actual costs.
- Use AFS' enhanced cost accumulation capabilities to monitor and report costs by project in all appropriations.

Agency Comments

In commenting on a draft of this report, IRS agreed with our concerns, and stated that it was correcting and eliminating the deficiencies in its systems and processes. It did not, however, specifically address our recommendations. IRS' comments are included in appendix I.

Comments From the Internal Revenue Service

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

COMMISSIONER

December 9, 1993

Mr. Donald Chapin
Assistant Comptroller General
Accounting and Information Management Division
United States General Accounting Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Don:

Thank you for the opportunity to comment on the GAO draft report FINANCIAL MANAGEMENT: IRS Does Not Adequately Manage Its Operating Funds. The draft is the final of several reports that were issued as a result of the audit of our FY 1992 financial statements. This was the first year that the IRS underwent a financial statement audit, and I appreciate your staff's effort in conducting a comprehensive review of financial management at IRS.

We agree with the concerns in the report and, as noted in your report, are making changes. IRS management recognizes that improvement is an incremental process, and we are diligently working on correcting and eliminating the deficiencies in our systems and procedures.

Several years ago we recognized the deficiencies in our administrative accounting systems, and in order to address them and provide management with the information needed to make informed decisions, we installed software for a fully integrated accounting/budgeting system in 1991 and implemented it Servicewide at the beginning of FY 1993. The new system, the Automated Financial System (AFS), will provide the information necessary to prepare accurate financial statements, the detail transaction data to audit these financial statements, and the controls necessary to effectively manage spending to ensure compliance with Congressional mandates regarding the use of appropriated funds.

-2-

Mr. Donald Chapin

For FY 1993 and beyond, we introduced quarterly budget allocations for managers to better control spending. We converted to the National Finance Center's payroll system to replace an unreliable payroll system and provide more detailed payroll and benefit cost information. We have begun implementing commitment accounting and are working on improving the training for users of our AFS system. We continue to develop computer linkages between the overall financial system, AFS, and its feeder systems. Finally, we are continuing development of a cost management system that will provide financial information to managers so they can improve how their operations are run.

We look forward to continuing our work with you as the FY 1993 audit progresses.

Sincerely,

Peggy

Margaret Milner Richardson

Reports Resulting From GAO's Audit of IRS' Fiscal Year 1992 Financial Statements

Financial Management: IRS Self-Assessment of Its Internal Control and Accounting Systems Is Inadequate (GAO/AIMD-94-2, October 13, 1993).

Financial Management: IRS Lacks Accountability Over Its ADP Resources (GAO/AIMD-93-24, August 5, 1993).

Financial Audit: Examination of IRS' Fiscal Year 1992 Financial Statements (GAO/AIMD-93-2, June 30, 1993).

Financial Audit: IRS Significantly Overstated Its Accounts Receivable Balance (GAO/AFMD-93-42, May 6, 1993).

Federal Tax Deposit System: IRS Can Improve the Federal Tax Deposit System (GAO/AFMD-93-40, April 28, 1993).

Major Contributors to This Report

Accounting and Information Management Division, Washington, D.C.

Robert F. Dacey, Senior Assistant Director
Dianne D. Guensberg, Assistant Director
Charles E. Norfleet, Senior Audit Manager
Cheryl D. Driscoll, Audit Manager
Miguel A. Castillo, Senior Auditor
Mazhar Ahson, Auditor
Paul F. Foderaro, Auditor
Karen M. Spencer, Auditor

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