



441 G St. N.W.  
Washington, DC 20548

Accessible Version

March 18, 2025

Ms. Melanie Krause  
Acting Commissioner of the Internal Revenue Service

**IRS Financial Reporting: Improvements Needed in Information System and Other Controls**

Dear Ms. Krause:

On November 7, 2024, we issued our auditor’s report that included the results of our audits of the Internal Revenue Service’s (IRS) fiscal year 2024 financial statements and of its internal control over financial reporting as of September 30, 2024, including information system controls (fiscal year 2024 audits).<sup>1</sup>

As we reported in connection with our audit of IRS’s internal control over financial reporting, although it could improve certain internal controls, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2024. Those controls provided reasonable assurance that misstatements material to IRS’s financial statements would be prevented, or detected and corrected, on a timely basis.

Our fiscal year 2024 audits identified a continuing significant deficiency<sup>2</sup> in internal control over financial reporting concerning IRS’s unpaid assessments.<sup>3</sup> We also identified other deficiencies in IRS’s internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nevertheless, these deficiencies warrant IRS management’s attention.

This report is intended for IRS management’s use and presents the new control deficiencies we identified during our fiscal year 2024 audits. Specifically, this report presents detailed information on the new nonsensitive control deficiency we identified and our associated nonsensitive recommendation to address it. This report also presents the results of our follow-

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<sup>1</sup>Our audit report also included the results of our audit of IRS’s fiscal year 2023 financial statements and our report on compliance with laws, regulations, contracts, and grant agreements. See GAO, *Financial Audit: IRS’s FY 2024 and FY 2023 Financial Statements*, [GAO-25-107202](#) (Washington, D.C.: Nov. 7, 2024).

<sup>2</sup>A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<sup>3</sup>An unpaid assessment is an enforceable claim against a taxpayer for which specific amounts are due, have been determined, and the person(s) or entities from which a tax is due have been identified. See implementing guidance in the *Internal Revenue Manual* 1.34.4.1.6(1) p, “Terms/Definitions” (Aug. 25, 2015).

up on IRS's corrective actions to address recommendations from our prior reports related to internal control over financial reporting that remained open as of September 30, 2023, including detailed information on the nonsensitive recommendations.<sup>4</sup>

This report is a public version of a LIMITED OFFICIAL USE ONLY report that we issued concurrently. The LIMITED OFFICIAL USE ONLY report presents detailed information on the new sensitive control deficiencies we identified during our fiscal year 2024 audits, and our associated sensitive recommendations to address them. The LIMITED OFFICIAL USE ONLY report also presents detailed information on the results of our follow-up on IRS's corrective actions to address all recommendations, sensitive and nonsensitive in nature, from our prior reports related to internal control over financial reporting that remained open as of September 30, 2023.<sup>5</sup> IRS deemed much of the information in the LIMITED OFFICIAL USE ONLY report to be sensitive information, which must be protected from public disclosure. Although the information provided in this report is more limited, the report addresses the same objectives as the LIMITED OFFICIAL USE ONLY report and uses the same methodology.

## Results in Brief

During our fiscal year 2024 audits, we identified five new deficiencies in internal control over financial reporting. Four of these deficiencies related to information systems and are sensitive in nature, while one of these deficiencies related to the property and equipment transaction cycle and is nonsensitive. Specifically, we identified one access control deficiency and three configuration management control deficiencies related to information systems and one property and equipment transaction cycle control deficiency related to IRS's monitoring of depreciation expense calculations. We are making one recommendation in this report to address the control deficiency related to the property and equipment transaction cycle. Enclosure I provides detailed information on the control deficiency and our associated recommendation. In the LIMITED OFFICIAL USE ONLY report, we made nine recommendations to address the sensitive control deficiencies related to information systems.

We also assessed IRS's corrective actions to address 42 recommendations—six transaction cycle, two safeguarding, and 34 information system recommendations—related to deficiencies in internal control over financial reporting identified in our prior reports that were open as of September 30, 2023.<sup>6</sup> We determined that IRS completed corrective actions for 22 of the 42 recommendations and was in the process of taking corrective actions for the remaining 20 recommendations. Enclosure II provides the status of the eight recommendations that are nonsensitive in nature from our prior reports related to internal control over financial reporting and detailed information on IRS's corrective actions as of September 30, 2024. The LIMITED OFFICIAL USE ONLY report contains the status of all recommendations, sensitive and nonsensitive in nature, from our prior reports related to internal control over financial reporting and detailed information on IRS's corrective actions as of September 30, 2024.

Although we identified some new control deficiencies, IRS made significant progress during fiscal year 2024 in addressing the significant deficiency in information system controls that we reported as of September 30, 2023. As a result, we concluded that the remaining control

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<sup>4</sup>GAO, *IRS Financial Reporting: Improvements Needed in Information System and Other Controls*, [GAO-24-107185](#) and GAO-24-107184SU (Washington, D.C.: Apr. 25, 2024).

<sup>5</sup>GAO, *IRS Financial Reporting: Improvements Needed in Information System and Other Controls*, GAO-25-107929SU (Washington, D.C.: Mar. 18, 2025).

<sup>6</sup>A transaction cycle is a grouping of related accounting applications that processes and records a particular type of transaction.

deficiencies, including the new control deficiencies we identified, do not, individually or collectively, represent a significant deficiency in internal control over financial reporting as of September 30, 2024. It will be important for IRS management to continue to build on the progress it has made in addressing the remaining deficiencies in internal control over financial reporting, as well as focusing efforts on strengthening its information security program.

The new and continuing control deficiencies related to information systems and safeguarding assets increase the risk of unauthorized access to and modification of data and programs, disclosure of sensitive data, and disruption of critical operations. The new and continuing control deficiencies related to transaction cycles increase the risk of financial statement misstatements. IRS mitigated the potential effect of these control deficiencies primarily through compensating controls that management designed to help detect potential financial statement misstatements.

In commenting on a draft of this report and the LIMITED OFFICIAL USE ONLY report, IRS agreed with our new recommendations. IRS stated that it is committed to implementing improvements to promote the highest standard of financial management, internal controls, and information technology security. IRS's comments on this report are reproduced in enclosure III.

### **Objectives, Scope, and Methodology**

As part of our fiscal year 2024 audits, we (1) evaluated IRS's internal control over financial reporting and (2) assessed IRS's corrective actions to determine the status of recommendations from our prior reports related to IRS's internal control over financial reporting that were open as of September 30, 2023.

To evaluate IRS's internal control over financial reporting, we reviewed IRS policies and procedures; interviewed IRS management and staff; observed controls in operation; and conducted tests of controls to determine whether relevant controls were designed, implemented, and operating effectively. We based our evaluation on the *Financial Audit Manual*<sup>7</sup> and the *Federal Information System Controls Audit Manual*.<sup>8</sup> During the course of our work, we communicated our findings to IRS management.

A full discussion of our scope and methodology is included in our auditor's report of IRS's fiscal year 2024 financial statements.<sup>9</sup> We performed our fiscal year 2024 audits in accordance with U.S. generally accepted government auditing standards. We believe that our audits provide a reasonable basis for our findings and recommendations in this report and our separately issued LIMITED OFFICIAL USE ONLY report.

### **Five New Deficiencies Identified in IRS's Internal Control over Financial Reporting**

During our fiscal year 2024 audits, we identified five new deficiencies in internal control over financial reporting. Four of these deficiencies related to information systems and are sensitive in nature, while one of these deficiencies related to the property and equipment transaction cycle and is nonsensitive. Specifically, we identified one access control deficiency and three

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<sup>7</sup>GAO and Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*, vol. 1, [GAO-24-107278](#) (Washington, D.C.: June 2024); *Financial Audit Manual*, vol. 2, [GAO-24-107279](#) (Washington, D.C.: June 2024); and *Financial Audit Manual*, vol. 3, [GAO-24-107280](#) (Washington, D.C.: July 2024). The *Financial Audit Manual* presents a methodology for performing financial statement audits of federal entities in accordance with professional standards.

<sup>8</sup>GAO, *Federal Information System Controls Audit Manual (FISCAM)*, [GAO-09-232G](#) (Washington, D.C.: February 2009). FISCAM presents a methodology for assessing information system controls.

<sup>9</sup>[GAO-25-107202](#).

configuration management control deficiencies related to information systems and one property and equipment transaction cycle control deficiency related to IRS's monitoring of depreciation expense calculations. We summarize these five new deficiencies below and present a more detailed discussion of the deficiency related to the property and equipment transaction cycle, and our associated recommendation, in enclosure I. In the LIMITED OFFICIAL USE ONLY report, we provide a more detailed discussion of the four control deficiencies related to information systems and our associated recommendations.

### Information System Access Controls

A basic management objective for any agency is to protect the resources that support its critical operations from unauthorized access. An agency accomplishes this by designing and implementing controls to prevent, limit, and detect unauthorized access to data, programs, equipment, and facilities. Access controls include both logical and physical controls related to (1) protection of system boundaries, (2) identification and authentication, (3) authorization of access permissions, (4) sensitive system resources, (5) audit and monitoring of system activity, and (6) physical security of facilities and computing resources. Appropriately designed and implemented access controls reduce the risk of unauthorized access to and modification of data and programs, disclosure of sensitive taxpayer data, and disruption of critical operations.

We identified one information system control deficiency in access controls where IRS did not effectively perform recertifications of user access for the Integrated Financial System, Totally Automated Personnel System (TAPS), Enterprise File Transfer Utility, and Electronic Federal Payment Posting System (EFPPS).

We are making four recommendations to address this control deficiency.

### Information System Configuration Management

Configuration management involves identifying and managing security features for all hardware, software, and firmware components of an information system at a given point, as well as systematically controlling changes to that configuration during the system's life cycle. Appropriately designed and implemented configuration management controls provide reasonable assurance that systems are operating securely and as intended. They encompass policies, plans, and procedures that call for proper authorization, testing, approval, and tracking of all configuration changes and for timely software updates to protect against known vulnerabilities.

We identified three information system control deficiencies in configuration management where IRS did not

- effectively monitor configuration settings for TAPS and EFPPS application servers,
- effectively monitor configuration settings for the Unisys mainframe, and
- follow its established change management policies for the IBM mainframe.

We are making five recommendations to address these control deficiencies.

### Property and Equipment Transaction Cycle

Property and equipment transactions are those that involve tangible assets that (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity. An asset is a resource that embodies economic benefits or services that the federal government controls. Useful life is the normal operating life in terms of utility to the owner. Depreciation expense is

the systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

We identified one property and equipment transaction cycle control deficiency where IRS did not adequately monitor depreciation expense calculations.

We are making one recommendation to address this control deficiency.

### Status of Recommendations from Prior Reports

During our fiscal year 2024 audits, we assessed IRS’s corrective actions to address six transaction cycle recommendations, two safeguarding recommendations, and 34 information system recommendations related to control deficiencies identified in our prior reports that were open as of September 30, 2023.

We determined that IRS completed corrective actions for 22 recommendations—one transaction cycle and 21 information system recommendations—and was in the process of taking corrective actions on the remaining 20 recommendations that were open as of September 30, 2023.

It is important for IRS management to continue focusing efforts on timely addressing the remaining recommendations related to the deficiencies in internal control over financial reporting.

See table 1 for a summary of the status of recommendations related to internal control over financial reporting as of September 30, 2024. See enclosure II for detailed information on IRS’s corrective actions to address the nonsensitive recommendations and whether the recommendations were open or closed as of September 30, 2024. The separately issued LIMITED OFFICIAL USE ONLY report contains detailed information on IRS’s corrective actions to address all recommendations, sensitive and nonsensitive in nature, from our prior reports related to internal control over financial reporting.

<b>Audit area</b>	<b>Open prior years' recommendations through the FY 2023 audit</b>	<b>Prior years' recommendations closed in the FY 2024 audit</b>	<b>New recommendations resulting from the FY 2024 audit</b>	<b>Total open recommendations resulting from the FY 2024 audit</b>
Transaction cycles: Unpaid assessments	1	no recommendations	no recommendations	<b>1</b>
Transaction cycles: Tax refunds	5	1	no recommendations	<b>4</b>
Transaction cycles: Property and equipment	no recommendations	no recommendations	1	<b>1</b>
<b>Total (transaction cycles)</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>6</b>
<b>Safeguarding assets</b>	2	no recommendations	no recommendations	<b>2</b>
<b>Information systems: Security management</b>	1	no recommendations	no recommendations	<b>1</b>
Information systems: Access controls: Identification and authentication	2	2	no recommendations	<b>0</b>

<b>Audit area</b>	<b>Open prior years' recommendations through the FY 2023 audit</b>	<b>Prior years' recommendations closed in the FY 2024 audit</b>	<b>New recommendations resulting from the FY 2024 audit</b>	<b>Total open recommendations resulting from the FY 2024 audit</b>
Information systems: Access controls: Sensitive system resources	6	3	no recommendations	<b>3</b>
Information systems: Access controls: Audit and monitoring	15	13	no recommendations	<b>2</b>
Information systems: Access controls: Account management	no recommendations	no recommendations	4	<b>4</b>
<b>Total (access controls)</b>	<b>23</b>	<b>18</b>	<b>4</b>	<b>9</b>
Configuration Management: Software updates	1	no recommendations	no recommendations	<b>1</b>
Configuration Management: Configuration settings	9	3	4	<b>10</b>
Configuration Management: Configuration change control	no recommendations	no recommendations	1	<b>1</b>
<b>Total (configuration management)</b>	<b>10</b>	<b>3</b>	<b>5</b>	<b>12</b>
<b>Total (information systems)</b>	<b>34</b>	<b>21</b>	<b>9</b>	<b>22</b>
<b>Total</b>	<b>42</b>	<b>22</b>	<b>10</b>	<b>30</b>

Legend: FY = fiscal year; — = no recommendations.

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-25-107930

## Conclusions

The new and continuing control deficiencies related to information systems and safeguarding assets increase the risk of unauthorized access to and modification of data and programs, disclosure of sensitive data, and disruption of critical operations. The new and continuing control deficiencies related to transaction cycles increase the risk of financial statement misstatements. IRS mitigated the potential effect of these control deficiencies primarily through compensating controls that management designed to help detect potential financial statement misstatements. As part of our audits of IRS's fiscal year 2025 financial statements and its internal control over financial reporting as of September 30, 2025, we plan to follow up with IRS on the corrective actions it has taken on our new recommendations and those recommendations from prior reports that remain open.

## Recommendations for Executive Action

To address the new control deficiency identified in this report, we are making one recommendation that we detail in enclosure I. We made nine recommendations to address the new control deficiencies related to information systems in our separately issued LIMITED OFFICIAL USE ONLY report.

## Agency Comments

We provided a draft of this report to IRS for comment. In its comments, reproduced in enclosure III, IRS agreed with the new recommendation we are making in this report. IRS stated that it is committed to implementing improvements to promote the highest standard of financial management, internal controls, and information technology security.

In a separately issued LIMITED OFFICIAL USE ONLY report, IRS agreed with our nine new recommendations to address control deficiencies in information systems.

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This report contains a recommendation to the Commissioner of the Internal Revenue Service. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken or planned on our recommendations to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Accountability, the congressional committees with jurisdiction over the agency programs and activities that are the subject of our recommendations, and GAO not later than 180 days after the date of this report. A written statement must also be sent to the Senate and House Committees on Appropriations with the agency's first request for appropriations made more than 180 days after the date of this report. Please send your statement of actions to me at [simpsondb@gao.gov](mailto:simpsondb@gao.gov).

We are sending copies of this report to the appropriate congressional committees, the Secretary of the Treasury, the Treasury Inspector General for Tax Administration, and other interested parties. In addition, this report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-3406 or [simpsondb@gao.gov](mailto:simpsondb@gao.gov). GAO staff members who made key contributions to this report include Vijay D'Souza (Director), Edward Alexander, Jr. (Assistant Director), Nicole Burkart (Assistant Director), Larry Crosland (Assistant Director), Richard (Ryan) Guthrie (Assistant Director), Chantel Bradley, Leland Buggie, Stephen Duraiswamy, Andrew Erickson, Linda Erickson, David Goedeke, Daniel Harris, Deanna Kitchens, Tech Le, Sailaja Ledalla, Irene Li, Andrew Long, Kevin Metcalfe, John A. Schaefer, and Randy Voorhees.

Sincerely,



Dawn B. Simpson  
Director, Financial Management and Assurance

Enclosures – 3

## Enclosure I

### New Transaction Cycle Control Deficiency in IRS's Internal Control over Financial Reporting

This enclosure presents detailed information on the new nonsensitive deficiency in internal control over financial reporting we identified during our audits of the Internal Revenue Service's (IRS) fiscal year 2024 financial statements and of its internal control over financial reporting as of September 30, 2024, and includes our related recommendation.<sup>1</sup> Specifically, this enclosure presents the new transaction cycle control deficiency related to property and equipment. This enclosure also includes our recommendation that, if IRS effectively implements it, should mitigate or correct the deficiency.

#### Property and Equipment

##### 1. Inadequate Monitoring of Depreciation Expense Calculations

**Background.** IRS uses the Asset Accounting Module (AAM) to calculate depreciation expense.<sup>2</sup> AAM is an integrated module of the Integrated Financial System and functions as a subsidiary ledger for IRS asset records. AAM calculates depreciation for each asset based on the depreciation key, useful life of the asset, and depreciation start date. The Integrated Financial System is the system of record for recording asset values net of depreciation for financial reporting purposes.

**Condition.** In our testing of depreciation expense, we found that IRS did not consistently record depreciation expense in accordance with its accounting policies. Specifically, we identified instances where IRS did not use the correct depreciation method or depreciation start date for certain assets.

**Criteria.** Section 6, "Property and Equipment Accounting," of the *Internal Revenue Manual* (IRM) 1.35, *Financial Accounting*, establishes IRS's accounting policies for capitalizing property and equipment acquisitions and accounting for depreciation over the useful life of the asset. For assets with a receipt date of October 1, 2021, or later, IRS uses a depreciation key in AAM, which calculates depreciation daily on a straight-line basis over the remaining useful life of the asset. This depreciation key is currently the default setting for all asset classes. However, assets with a receipt date before October 1, 2021, are required to use a different depreciation key in AAM, which calculates depreciation on a straight-line basis using the half-year convention for the first and final year of the useful life of the asset. Before October 1, 2021, the half-year convention was used for all asset classes.

**Cause.** IRS's existing monitoring procedures are not adequate for detecting inaccurate depreciation expense calculations because they do not monitor the automated depreciation calculations AAM performs. IRS's existing monitoring procedures require IRS personnel to review AAM audit logs for changes associated with assets that could affect depreciation expense but do

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<sup>1</sup>An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

<sup>2</sup>Depreciation expense is the systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

## Enclosure I

not require personnel to periodically and manually calculate and reconcile the depreciation expense calculations for a selection of assets.

**Effect.** Without procedures to monitor the automated depreciation calculations AAM performs, misstatements in depreciation expense may occur.

**Recommendation for Executive Action.** The Commissioner of the Internal Revenue Service should design and implement procedures to monitor the automated depreciation calculations AAM performs through the periodic manual calculation and reconciliation of the depreciation expense for a selection of assets to reasonably assure that depreciation expense is recorded in accordance with IRS's accounting policies. (Recommendation 1)

## Enclosure II

### Status of Recommendations from Prior Reports

Our audits of the Internal Revenue Service's (IRS) fiscal year 2024 financial statements and of its internal control over financial reporting as of September 30, 2024, included following up on IRS's corrective actions to address recommendations from our prior reports related to internal control over financial reporting that remained open as of September 30, 2023. Table 2 provides detailed information on the corrective actions IRS took related to the eight nonsensitive recommendations and indicates whether the recommendations were open or closed as of September 30, 2024. The LIMITED OFFICIAL USE ONLY report contains all recommendations, sensitive and nonsensitive in nature, from our prior reports related to internal control over financial reporting and information on IRS corrective actions as of September 30, 2024. We define the abbreviations used in the legend at the end of the table.

**Table 2: IRS Corrective Actions Taken and Status of Recommendations Related to Internal Control over Financial Reporting from Prior Reports as of September 30, 2024**

#### Transaction cycles

GAO source report and recommendation number	Recommendation and corrective actions taken	Fiscal year initially identified	Status
<a href="#">GAO-19-412R</a> , #19-01 [Unpaid assessments]	<p>Implement the necessary actions to effectively address the two primary causes of the significant deficiency in IRS's internal control over unpaid assessments. These actions should (1) resolve the system limitations affecting the recording and maintenance of reliable and appropriately classified unpaid assessments and related taxpayer data to support timely and informed management decisions, and enable appropriate financial reporting of unpaid assessment balances throughout the year, and (2) identify the control deficiencies that result in significant errors in taxpayer accounts and implement control procedures to routinely and effectively prevent, or detect and correct, such errors.</p> <p><b>Actions taken:</b></p> <p>During fiscal year 2019, IRS documented the key management decisions in the design and use of the estimation process. However, IRS told us that it placed corrective actions on hold because of competing priorities. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2024, and that this recommendation remains open.</p>	2018	Open

## Enclosure II

GAO source report and recommendation number	Recommendation and corrective actions taken	Fiscal year initially identified	Status
<a href="#">GAO-16-457R</a> , #16-07 [Tax refunds]	<p>Determine the reason(s) why staff did not always comply with IRS's established policies and procedures related to initiating, monitoring, and reviewing the monitoring of manual refunds and, based on this determination, establish a process to better enforce compliance with these requirements.</p> <p><b>Actions taken:</b></p> <p>During fiscal year 2019, IRS determined that an enterprise-wide, fully automated process to monitor manual refunds would best address deficiencies associated with relying on employees to monitor refunds and take appropriate action on potential duplicate or erroneous refund conditions. In addition, IRS plans to develop business requirements and request programming through the unified work request process. However, IRS told us that it placed corrective actions on hold because of limited resources and competing priorities. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2024, and that this recommendation remains open.</p>	2015	Open
<a href="#">GAO-19-412R</a> , #19-11 [Tax refunds]	<p>Implement a validity check in the ISRP system to confirm that RSNs that Data Conversion key entry operators enter into the system have the required 14 digits.</p> <p><b>Actions taken:</b></p> <p>During fiscal year 2022, IRS implemented programming changes to ISRP that restricted the input of each individual character of the 14-character RSN. However, during our fiscal year 2023 testing, we continued to find that Data Conversion key entry operators can enter RSNs into the ISRP system with fewer than the required 14 digits. During our fiscal year 2024 audit, IRS officials told us that they plan to address this recommendation in the future. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2024, and that this recommendation remains open.</p>	2018	Open
<a href="#">GAO-20-480R</a> , #20-02 [Tax refunds]	<p>Establish and implement manual refund procedures to direct (1) initiators to document (e.g., record on the taxpayers' accounts or annotate on the related manual refund forms) the justification for bypassing the IAT tool warning related to potential duplicate tax refunds on taxpayers' accounts and (2) managers to monitor whether such warnings were bypassed and review the justifications for reasonableness prior to approving manual refund forms.</p> <p><b>Actions taken:</b></p> <p>During our fiscal year 2023 audit, we found that IRS made updates to its IAT tool fields and related manual refund forms to prevent duplicate manual refunds. Based on our review of these updates, refund initiators still can bypass IAT tool warnings related to potential duplicate tax refunds without justification. Additionally, IRS's policies and procedures do not require initiators to provide justification for bypassing these warnings, nor do they require managers to review these justifications for reasonableness. During our fiscal year 2024 audit, IRS officials told us that they plan to address this recommendation in the future. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2024, and that this recommendation remains open.</p>	2019	Open

## Enclosure II

GAO source report and recommendation number	Recommendation and corrective actions taken	Fiscal year initially identified	Status
<a href="#">GAO-23-106401</a> , #23-01 [Tax refunds]	<p>Establish a process to provide reasonable assurance that the System Control Processing and Validation Section certifying officers comply with the requirement to complete the Fiscal Service Certifying Officer Training within 30 days prior to the renewal of their designations.</p> <p><b>Actions taken:</b>            During our fiscal year 2024 audit, we found that IRS implemented two controls to reasonably assure that certifying officers comply with the requirement to complete the Fiscal Service Certifying Officer Training. The certifying officer created Outlook calendar appointments to discuss the training requirement with system control processing and verification system data entry officers and certifying officers 60 days before their designations expire. Additionally, to ensure that recertification items are completed before they expire, the certifying officer reviews a monthly report from SPS that lists the certification expiration dates for all data entry officers and certifying officers. IRS has formalized these new controls by updating the SOP for this process. As a result, we concluded that IRS's corrective actions as of September 30, 2024, were adequate to close this recommendation.</p>	2022	Closed
<a href="#">GAO-23-106401</a> , #23-02 [Tax refunds]	<p>Review and update IRS's process to provide reasonable assurance that tax examiners comply with the requirement to address and correct error codes 004 and 230.</p> <p><b>Actions taken:</b>            During our fiscal year 2023 audit, we found that IRS issued alerts in fiscal year 2022 to ERS examiners, reminding them to follow IRM and to correct coding and transcription errors for error codes 004 and 230. During our fiscal year 2024 audit, IRS officials told us that they plan to address this recommendation in the future. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2024, and that this recommendation remains open.</p>	2022	Open

## Enclosure II

### Safeguarding assets

GAO source report and recommendation number	Recommendation and corrective actions taken	Fiscal year initially identified	Status
<a href="#">GAO-15-480R</a> , #15-07 [Tax refunds]	<p>Establish procedures to monitor whether non-IRS contractors with unescorted physical access to IRS facilities are receiving unauthorized access awareness training.</p> <p>Actions taken:</p> <p>During fiscal year 2021, IRS developed an SOP to establish policies and procedures for monitoring and enforcing training requirements that allow contractors to maintain unescorted access to IRS facilities. However, during our fiscal year 2023 testing, we found that some contracting officer's representatives had not completed the security awareness training forms as required. During our fiscal year 2024 audit, IRS officials told us that they plan to address this recommendation in the future. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2024, and that this recommendation remains open.</p>	2014	Open
<a href="#">GAO-23-106401</a> , #23-03 [Tax refunds]	<p>Direct the appropriate officials to establish and implement actions to provide reasonable assurance that requests for information are provided in a timely manner as required.</p> <p>Actions taken:</p> <p>During our fiscal year 2024 audit, IRS officials told us that they plan to address this recommendation in the future. As a result, we determined that IRS had not completed its corrective actions as of September 30, 2024, and that this recommendation remains open.</p>	2022	Open

Legend:

ERS: Error Resolution System  
 IAT: Integrated Automation Technologies  
 IRM: *Internal Revenue Manual*  
 IRS: Internal Revenue Service  
 ISRP: Integrated Submission and Remittance Processing  
 RSN: refund schedule number  
 SOP: standard operating procedure  
 SPS: Secure Payment System  
 Source: GAO. | GAO-25-107930

## Enclosure III

### Comments from the Internal Revenue Service



COMMISSIONER

**DEPARTMENT OF THE TREASURY**  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

March 4, 2025

Ms. Dawn Simpson  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Simpson:

I am writing in response to the Government Accountability Office (GAO) draft report titled, IRS Financial Reporting: Improvements Needed in Information System and Other Controls (GAO-25-107930).

We are pleased that GAO agreed to close 22 recommendations from the prior years' reports, and we appreciate GAO recognizing our efforts to improve our financial reporting and information system controls. I acknowledge the new recommendations contained in this report, and we look forward to working with GAO to resolve them.

We are committed to implementing improvements dedicated to promoting the highest standard of financial management, internal controls, and information technology security. If you have any questions, please contact me or Teresa Hunter, Chief Financial Officer.

Sincerely,

**Melanie R.  
Krause**

Digitally signed by  
Melanie R. Krause  
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Melanie R. Krause, Ph.D.  
Acting Commissioner

Enclosure

## Enclosure III

Enclosure

**Internal Revenue Service (IRS) comments on GAO's recommendations as contained in the report titled, IRS Financial Reporting: Improvements Needed in Information System and Other Controls (GAO-25-107930)**

Recommendation 1: The Commissioner of the IRS should design and implement procedures to monitor the automated depreciation calculations AAM performs through the periodic manual calculation and reconciliation of the depreciation expense for a selection of assets to reasonably assure that depreciation expense is recorded in accordance with the IRS's accounting policies. (Recommendation 25-01)

Comments: The IRS agrees with this recommendation.

## Enclosure III

### Accessible Text for Comments from the Internal Revenue Service

March 4, 2025

Ms. Dawn Simpson  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Simpson:

I am writing in response to the Government Accountability Office (GAO) draft report titled, IRS Financial Reporting: Improvements Needed in Information System and Other Controls (GAO-25-107930).

We are pleased that GAO agreed to close 22 recommendations from the prior years' reports, and we appreciate GAO recognizing our efforts to improve our financial reporting and information system controls. I acknowledge the new recommendations contained in this report, and we look forward to working with GAO to resolve them.

We are committed to implementing improvements dedicated to promoting the highest standard of financial management, internal controls, and information technology security. If you have any questions, please contact me or Teresa Hunter, Chief Financial Officer.

Sincerely,

Melanie R. Krause

Digitally signed by  
Melanie R. Krause  
Date: 2025.03.04  
16:16:25 -05'00'

Melanie R. Krause, Ph.D.  
Acting Commissioner

Enclosure

Internal Revenue Service (IRS) comments on GAO's recommendations as contained in the report titled, IRS Financial Reporting: Improvements Needed in Information System and Other Controls (GAO-25-107930)

Recommendation 1: The Commissioner of the IRS should design and implement procedures to monitor the automated depreciation calculations AAM performs through the periodic manual calculation and reconciliation of the depreciation expense for a selection of assets to reasonably assure that depreciation expense is recorded in accordance with the IRS's accounting policies. (Recommendation 25-01)

Comments: The IRS agrees with this recommendation.