

GAO

Report to the Commissioner,
Internal Revenue Service

August 1993

FINANCIAL
MANAGEMENT

IRS Lacks
Accountability Over Its
ADP Resources



Accounting and Information
Management Division

B-253414

August 5, 1993

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) accountability over its automated data processing (ADP) equipment and software. According to IRS records, it has invested hundreds of millions of dollars in these resources, which are critical to the agency's processing and accounting for tax data. Further, IRS is in the early stages of a Tax Systems Modernization effort that it projects, through the year 2008, will result in expenditures of \$23.1 billion, \$8.9 billion of which is for ADP hardware and software. For this reason, it is especially important that IRS have reliable information to properly manage and accurately report on these assets.

Our review was performed 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 report is one of a series of reports resulting from our audit. Our previously issued reports are listed in appendix I.

Results in Brief

Despite recent improvement efforts, IRS' ADP inventory records were unreliable for managing and reporting on these assets because IRS had not instituted basic controls to ensure that information maintained by its ADP inventory system was current and accurate. Specifically, IRS (1) had not developed procedures to ensure that ADP acquisitions and disposals were accurately recorded on a timely basis, (2) did not effectively perform physical inventories, and (3) did not properly value ADP resources, primarily because, for many items, IRS used unrealistic estimates instead of actual costs.

Our tests of a sample of high-value items identified many errors and omissions in IRS ADP inventory records and showed that items were overvalued. For example, a video display terminal costing \$752 was valued in the ADP inventory records at \$5.6 million. Further, telecommunications and electronic filing equipment, which IRS valued at \$84.2 million, had not been systematically recorded in any agencywide fixed asset system. Also,

IRS did not maintain records of the costs related to developing software in-house which, combined with other ADP inventory information, would provide more complete accountability for ADP costs.

As a result of unreliable and incomplete records, IRS did not readily have the information it needed to manage maintenance contracts, make ADP support staffing decisions, or reliably report on ADP resources in its financial statements. For example, we found that IRS paid a total of \$36,000 for a maintenance contract on a minicomputer that had not been used for 3 years, because maintenance contract officers could not readily determine what equipment was still in use. As IRS proceeds with its tax systems modernization efforts, such information will be even more important to effectively manage and properly maintain ADP resources and to protect them from misuse and theft. This information is also important for developing budget requests, making procurement decisions, and measuring performance related to the use of ADP resources and program costs.

In addition, although IRS' CFO was responsible for financial management and reporting, the CFO did not have the authority to ensure that IRS ADP records were accurate. IRS' Assistant Commissioner for Information Systems Management was responsible for maintaining ADP inventory data. This official reported to the IRS Chief Information Officer and was primarily responsible for the management and operation of ADP equipment. As a result, the accuracy of ADP inventory data was a lower priority than these other duties.

Background

As the nation's tax collector, IRS, which is a bureau of the Department of the Treasury, relies on a wide array of ADP hardware and software to process tax returns, monitor collection efforts, and maintain hundreds of millions of taxpayer accounts. IRS' ADP inventory records indicated it had approximately \$600 million of computer equipment, most of which was located at IRS' 2 computing centers and 10 service centers. IRS estimated that this equipment comprised about 90 percent of all IRS fixed assets, which also included motor vehicles, office equipment and furniture, and investigative equipment.

IRS is aware that its fixed asset inventory records, especially its ADP records, are unreliable, and it has reported this since 1983 as a material weakness in its annual reports required by the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255). Intending to correct

this weakness for ADP fixed assets, IRS adopted its Computer Resources Management System (CRMS) in 1991 to maintain detailed records on its ADP hardware and software. IRS anticipated that by fiscal year 1992, this action would have resolved the material weakness. CRMS is the third in a series of IRS efforts over a 12-year period to develop reliable information about ADP assets. IRS estimated the cost to develop CRMS in-house to be approximately \$5.9 million based primarily on estimated personnel costs for staff assigned to the development effort. Staff at the computing and service centers as well as staff at regional and district offices and the national office are responsible for updating CRMS' records under the direction of IRS' Assistant Commissioner for Information Systems Management.

Objectives, Scope, and Methodology

As part of our audit of IRS' fiscal year 1992 financial statements, we assessed IRS' controls over its ADP inventory. Our primary objectives were to determine whether controls provided reasonable assurance that (1) IRS' ADP inventory records for equipment and procured software were complete and accurate and (2) items were valued according to IRS' policy or other authoritative bases. We also determined whether IRS was adequately accounting for the costs of in-house development of computer software. In addition, we assessed the responsibility of the CFO for maintaining accountability for ADP resources.

To assess controls over ADP inventory, we reviewed IRS' written procedures for recording, deleting, and valuing ADP hardware and software; discussed them with IRS personnel; and reviewed related documentation.

We tested the accuracy and completeness of IRS' ADP inventory records by comparing a judgmentally selected sample of items recorded in the inventory with items located at two IRS facilities. Specifically, we selected 19 items recorded in the ADP inventory records and attempted to locate them. We also judgmentally selected 20 items physically located at IRS facilities and attempted to find the related records in the inventory system. Generally, for both samples, we selected high-dollar items, the majority of which were valued at more than \$27,000 per item. In addition, we scanned CRMS reports for three IRS facilities to identify items with unusual values for review.

To determine if equipment items had been valued in accordance with IRS' policy of recording items at their acquisition cost, we compared the recorded values for the items we selected with the related procurement documents.

To determine if IRS was adequately accounting for the costs of developing computer software, we discussed this matter with IRS officials responsible for information systems development and financial management.

To assess the IRS CFO's role in managing ADP resources, we discussed this matter with IRS officials responsible for financial management and reviewed IRS documentation pertaining to CRMS.

We performed our work at IRS computing centers in Martinsburg, West Virginia, and Detroit, Michigan, and at the Andover, Massachusetts, service center. We conducted our review in accordance with generally accepted government auditing standards from July 1991 through April 1993.

IRS provided comments on a draft of this report. These comments are discussed in the "Agency Comments" section and are reprinted in appendix II.

ADP Assets Were Not Properly Recorded

IRS' ADP inventory records were incomplete and inaccurate primarily due to a lack of control over information maintained in CRMS. Specifically, controls were not in place to ensure that (1) additions and deletions to ADP inventory were recorded accurately or promptly, (2) accounting and inventory records were reconciled, and (3) physical inventories were effectively performed.

No Controls Over Inventory Additions and Deletions

IRS had not instituted controls to ensure that additions and deletions to its ADP equipment inventory were recorded accurately and on a timely basis. Although CRMS had been under development since 1985 and had been officially adopted as IRS' ADP inventory system in June 1991, procedures for maintaining the data in CRMS had not been implemented. The pertinent segment of IRS' Internal Revenue Manual, which describes IRS' recording procedures for ADP inventory, had not been updated since 1981. In a 1991 report, IRS internal auditors identified this guidance as being outdated, but, as of April 1993, no update had been provided.

As a result, the computer equipment analysts responsible for entering changes in ADP inventory data into CRMS based on procurement and disposal documents had no guidance specifying how and when CRMS entries were to be made and reviewed. For example, IRS had not specified a time period within which changes to inventory records were to be entered. Under normal business practices, transactions are typically

entered as they occur. However, at a minimum, transactions should be entered within the entity's reporting cycle, which is typically a month. By entering transactions on a timely basis, information available to management is more current and accurate.

During our visit to the Martinsburg Computing Center, we observed that one analyst had a significant backlog of unentered acquisition and disposal documents that had accumulated over 3 months. The analyst said that the entries had not been made because managers had emphasized other duties and indicated that updating CRMS information was a low priority task. Similarly, a computer equipment analyst at the Detroit Computing Center told us that because his primary duty is to order software for mainframe computers, maintaining CRMS data is generally a lower priority than his other duties.

Accounting and Inventory Records Were Not Reconciled

ADP inventory records were not compared to amounts recorded in IRS' accounting records to detect and reconcile any discrepancies because IRS did not have a policy requiring that these records be reconciled. Because IRS' accounting and inventory systems are not integrated, IRS must record acquisitions and disposals separately in each set of records, an inefficient practice that increases opportunities for errors and omissions. As required by the CFO Act and the Joint Financial Management Improvement Program's Core Financial System Requirements, adopted by GAO, OMB, and Treasury, IRS' long-range plans call for integrating its accounting and inventory systems so that the entry of one transaction will automatically update all appropriate records. However, until such systems are implemented, reconciling accounting and inventory records on a monthly basis would help ensure that all equipment acquisitions and disposals were properly recorded.

Physical Inventories Were Not Performed or Were Ineffective

At two of the three locations covered by our review, physical inventories of ADP equipment were either not taken or were not effectively used to identify and resolve discrepancies and correct errors in inventory records. Periodic physical inventories can help detect discrepancies between items actually on hand and items recorded in the inventory records. Any discrepancies can then be investigated to determine what adjustments to inventory records are needed and what control weaknesses may have caused the discrepancies.

IRS' Internal Revenue Manual requires that physical inventories be taken annually. However, our review of ADP inventory records and discussions with an official at the Detroit Computing Center showed that Detroit had not performed its required fiscal year 1992 physical inventory of mainframe and related equipment. IRS officials stated that the inventory had not been performed because IRS did not consider it to be a priority. At Martinsburg, records showed that a physical inventory had been taken 3 months before our visit. However, as discussed in the following section, the errors we identified indicated that Martinsburg's effort had not been effective in detecting and correcting discrepancies. After we brought these problems to IRS' attention, the IRS Assistant Commissioner for Information System Management, in a February 2, 1993, memorandum, outlined a plan for conducting comprehensive physical inventories of all ADP assets by September 30, 1993.

Records Were Unreliable and Incomplete

The effects of the control weaknesses we identified were evident in our tests of selected ADP equipment items and related records. These limited tests showed that IRS' ADP inventory records maintained in CRMS were substantially in error. Many equipment items on hand were not included in the CRMS records, and items that were no longer in IRS' possession had not been deleted. For example,

- we attempted to locate records in CRMS for 10 large equipment items in use at the Martinsburg Computing Center and found that 9—one \$583,783 tape storage library and eight \$27,595 mainframe tape drives—had not been recorded;
- we could not locate the five \$27,595 tape drives we selected from Martinsburg's CRMS records because they had been disposed of;
- CRMS records at the Detroit Computing Center showed 12 mainframe processors when only 8 were on hand because 4 had been entered twice and, of the 8 on hand, 4 had no recorded value; and
- an IBM mainframe processor, costing \$6 million, located at the Detroit Computing Center, had erroneously been recorded in both Martinsburg's and Detroit's CRMS inventory records.

We also identified two significant problems that affected the accuracy of IRS' ADP inventory records on an agencywide basis. First, telecommunications equipment was not recorded in CRMS because IRS had not developed a policy on how these items were to be accounted for. IRS recently reported that it held about \$77 million in such equipment and, at the close of our review, had developed a plan to enter telecommunications

equipment items into CRMS. Second, IRS officials informed us that IRS' national office had not entered data on electronic filing equipment, as planned. As a result, the electronic filing equipment, which IRS estimated was worth approximately \$7.2 million, was not recorded in CRMS.

ADP Assets Were Not Properly Valued

ADP assets included in CRMS were not valued in accordance with IRS' valuation policy (acquisition cost) or in accordance with any other authoritative basis that would provide useful and meaningful information to IRS managers. In addition, IRS had not developed adequate guidance on how to value items that had originally been leased. As a result, values included in CRMS, although intended to represent acquisition costs, were so erroneous that they were not relevant to management for any decision-making purposes.

When IRS designated CRMS as its official ADP inventory system, existing cost data already in CRMS were incomplete and often inaccurate. Rather than researching procurement records to obtain actual acquisition costs on items that had not been valued, IRS developed and distributed a pricing guide containing estimated cost data to be entered into CRMS. However, the pricing guide was not reviewed for the reasonableness of the estimated cost data it contained, and such data were unrealistic.

We compared the prices in the guide for items in our judgmental sample with acquisition costs obtained from procurement records and found that the values for certain items were grossly overstated. For example, we found 26 pieces of equipment listed in Martinsburg's inventory at an acquisition cost of \$5.6 million each based on prices in the guide, when, according to procurement documents, the actual costs ranged from \$752 for a video display terminal to \$25,000 for a coolant distributor. As a result, the value of Martinsburg's ADP inventory was overstated by approximately \$145 million for these items. Similarly, in Detroit, a printer costing \$12,784 was listed in the inventory as having an acquisition cost of \$5.6 million.

Further, Martinsburg erroneously recorded two mainframe processors at \$11.8 million each although procurement documents showed that they had been purchased from the Environmental Protection Agency at a cost of \$6 million each. The higher amounts had been obtained from documents showing the Environmental Protection Agency's original cost for the items.

After we brought these valuation errors to IRS' attention, the IRS Assistant Commissioner for Information Systems Management, in a February 2, 1993, memorandum, outlined a plan to review procurement documents to obtain acquisition costs and enter them in CRMS by September 30, 1993. Although we found that actual cost data were generally available, if IRS cannot obtain actual acquisition costs for all items, we believe it would be appropriate for IRS to develop cost estimates as long as the estimates are based on data that provide adequate assurance that the estimates reasonably approximate acquisition costs.

While IRS has adopted acquisition cost as the basis for valuing its ADP hardware and software for financial management purposes, other data related to these assets could also be of assistance to management in its decision-making. For example, estimated replacement cost may be useful to managers in making budget and procurement decisions. Such information could be maintained in CRMS or be available from other sources.

Regarding items that had originally been leased, IRS had not developed agencywide valuation procedures. As a result, the locations we visited had each developed their own procedures, which were not consistent. For example, one location entered an acquisition cost based on the total number of lease payments, while another used the pricing guide. In addition, one location recorded the acquisition date as the date the equipment was first leased, while another recorded the date the equipment became IRS-owned.

Costs of IRS-Developed Software Not Captured

IRS did not maintain complete cost information on computer software. Although its policy is to record the cost of purchased software in CRMS, IRS was not able to capture the costs associated with its in-house development of software because it does not have a cost accounting system for tracking actual software development expenditures. These costs can be significant—based on its design master plan, IRS projects that in-house development costs under the Tax Systems Modernization effort will be about \$535 million.

Reliable information on the costs of developing software in-house can (1) help managers measure the costs and benefits of alternative courses of action, such as the cost of purchasing software versus developing it in-house, and (2) allow managers to monitor and control projects by comparing actual costs to budgeted costs. IRS told us it intends to account

for in-house software development costs for all activities within the IRS with the Cost Management System it is currently developing. However, this system is not expected to be implemented Servicewide until December 1996.

Unreliable Records Hindered IRS' Ability to Manage and Report on Its ADP Assets

Because IRS' ADP records were extremely unreliable, IRS managers lacked readily available information needed to make ADP related staffing decisions, monitor maintenance contracts, and prepare financial statements. Accurate ADP inventory records that clearly show what items are on hand and in use, where they are located, and who is responsible for them are important to properly manage, maintain, and protect such items from theft and misuse. Also, other information on ADP assets such as the age, estimated remaining useful life, and condition of the assets could be useful to decisionmakers.

At IRS, some of the risk of theft is reduced because the computing and service centers where most of IRS' ADP hardware and software is located are relatively secure facilities that generally restrict access to IRS employees. In addition, much of IRS' ADP equipment is large and, therefore, not readily subject to loss. However, small items, such as personal computers and software packages, could be stolen, or newly purchased items could be lost in transit to their final destination. Exposure to such risks are likely to increase as IRS expands its ADP inventory as part of its Tax Systems Modernization effort.

Staffing Decisions Hindered

Officials in IRS' Systems Management Division, which is responsible for managing the use of IRS' ADP resources, told us that because CRMS inventory data are unreliable and CRMS was not designed to provide certain details, they had to obtain ADP inventory information needed to complete fiscal year 1994 staffing allocations by directing each service center to manually compile the needed data. The Systems Management Division calculates staffing needs for activities such as ADP systems administration and operations based on formulas that incorporate information on the number and configuration of ADP equipment items. Although CRMS was designed to maintain most of the data, such as the number of central processing units and terminals in use, the data were not reliable. In addition, CRMS was not designed to maintain data on the number of active ports available at each minicomputer, a factor which is part of the criteria for determining staffing needs. As a result, field locations had to spend time compiling the needed data or obtain it from informal records that may not have been reliable.

Maintenance Contract Monitoring Could Be Improved

IRS' lack of reliable ADP inventory data also hindered the ability of its maintenance contract officers to compare existing assets with items covered by equipment maintenance contracts to ensure that all equipment is covered by maintenance contracts, as appropriate, and that maintenance contract payments are discontinued when equipment is disposed of. For example, during our audit, we found that IRS paid \$36,000 in maintenance charges on a minicomputer that had not been used for 3 years, because maintenance contract officers could not readily determine what equipment was still in use.

In addition, IRS had to manually calculate downtime credits because CRMS did not always contain current maintenance contract information and reliable inventory data. Downtime occurs when IRS computers break down; in these instances, some maintenance contractors allow IRS a credit against the cost of the related maintenance contract. Also, downtime—even if it is not chargeable to a vendor—can help IRS determine the reliability of an equipment item. Although CRMS contains a module designed to automatically calculate computer downtime credits, the inaccuracy of the CRMS data base precluded its effective use.

Financial Reporting Incomplete

IRS officials concluded that the information in CRMS was so unreliable that it could not be used as a basis for the fixed asset balance in IRS' fiscal year 1992 financial statements under the CFO Act. As a result, IRS did not report a balance for property and equipment in its principal financial statements. Instead, IRS reported in the notes to the principal statements \$107 million of ADP equipment, which only accounted for mainframe central processing unit equipment at its computing and service centers. We have not reviewed the accuracy of this information. At the close of our review, IRS officials told us that they were taking steps to improve the reliability and completeness of CRMS data so that this information can be used in future reports.

Other Benefits of Reliable Information on ADP Assets

Reliable and complete information can help IRS managers improve decisions on how to best use ADP resources. For example, budget and procurement decisions should consider the availability of existing resources to meet operating needs. Further, these data are necessary for measuring performance related to the use of ADP resources and program costs. Because CRMS does not provide the data, IRS must manually gather them. In light of the increase in ADP resources associated with IRS' Tax

Systems Modernization effort, manually gathering these data may be impractical in the future.

Because of IRS' substantial investment in ADP resources, it also is important that IRS consider how these costs impact its programs. Without accurate data, this type of analysis cannot be performed. To facilitate cost measurement, IRS is currently developing its Cost Management System. By allocating costs—including computer hardware and software costs—to various IRS programs, this system is intended to provide managers with information that will help them decide how to best use resources and improve operations. Reliable ADP asset information, derived from systems such as CRMS, will be a key factor in the Cost Management System's success.

CFO Does Not Have Adequate Control Over Fixed Asset Records

Although the IRS CFO is responsible for IRS' financial reports, the CFO does not have the authority needed to ensure that the fixed asset balance is accurate and developed in accordance with applicable accounting standards. Responsibility for developing and operating CRMS is under the control of IRS' Assistant Commissioner for Information Systems Management, whose duties primarily involve operation and management of IRS' ADP resources. This Assistant Commissioner reports to IRS' Chief Information Officer, who is responsible for managing IRS' strategic technology planning, technology standards, and telecommunications.

The CFO Act of 1990 required each of the 23 major federal departments and agencies, including the Department of the Treasury, to establish a CFO with comprehensive responsibilities for overseeing the respective agency's financial management organization and systems. Under Treasury's plan for a CFO organizational structure, which it intends to replicate at all Treasury bureaus including IRS, the CFO is to report directly to the agency head and hold a wide range of financial management responsibilities. These include establishing and enforcing financial management, accounting, and internal control policies and reviewing and approving all financial management system changes.

In February 1991, the Office of Management and Budget (OMB) provided additional guidance on the responsibilities that CFOs whose offices were established by the act are expected to assume. Specifically, this guidance says that agency CFOs shall oversee all financial management activities relating to programs and operations of the agency and develop and maintain an integrated agency accounting and financial management

system, including financial reporting and internal controls. OMB requires that CFOs be provided with the authority to

- manage directly, and/or monitor, evaluate, and approve, the design, budget, development, implementation, operation, and enhancement of agencywide and agency component accounting, financial, and asset management systems;
- approve designs for other information systems that provide financial and/or program performance data used in financial statements, solely to ensure that CFO needs are met;
- ensure that program information systems provide financial and programmatic data reliably, consistently, and promptly to agency financial management systems; and
- evaluate, where appropriate, the installation and operation of such systems.

Throughout government, greater attention is now being focused on financial management and reporting due to the CFO Act's emphasis on developing more useful and reliable financial management information to assist managers in making informed decisions. Placing responsibility for systems that account for and report IRS' ADP assets, as well as IRS' other fixed assets, under IRS' CFO would help ensure that the information needed for managing and reporting on these assets was available.

Conclusions

IRS management has not placed adequate emphasis on instituting controls to ensure the accuracy of ADP inventory records. As a result, information needed to manage and report on these assets was not readily available. In addition, IRS did not have a system of controls in place to ensure that the large acquisitions of hardware and software and the in-house development of software it has planned under its Tax Systems Modernization effort will be accurately accounted for. Due to the CFO Act's emphasis on developing more useful financial management information, IRS officials say that they plan to improve the reliability of ADP asset records. Placing responsibility for accounting for and reporting on IRS' fixed assets under IRS' CFO would help ensure that adequate controls are implemented and, thus, further improve the reliability of information needed for managing and reporting on these assets.

Recommendations

We recommend that the Commissioner of Internal Revenue (1) provide the agency's CFO with the authority to ensure that data maintained by IRS' ADP

inventory system meets management and reporting needs, (2) provide that any software purchases, development, or modifications related to this system are subject to the CFO's review and approval, and (3) direct the CFO to develop and implement standard operating procedures that incorporate controls to ensure that inventory records are accurately maintained. Such controls should include

- establishing specific procedures to ensure the prompt and accurate recording of acquisitions and disposals in IRS' ADP fixed asset system, including guidance addressing the valuation of previously leased assets;
- reconciling accounting and inventory records monthly as an interim measure until the successful integration of inventory and accounting systems is completed as planned; and
- implementing mechanisms for ensuring that annual physical inventories at field locations are effectively performed, that discrepancies are properly resolved, and that inventory records are appropriately adjusted.

We also recommend that the CFO

- oversee IRS efforts for ensuring that existing ADP inventory data in CRMS, including telecommunications and electronic filing equipment, are complete and accurate;
- determine what information related to ADP resources, such as equipment condition and remaining useful life, would be most useful to IRS managers for financial management purposes and develop a means for accounting for these data; and
- develop an interim means to capture relevant costs related to in-house software development.

Agency Comments

In commenting on a draft of this report, IRS' Acting Chief Financial Officer stated that IRS agreed with our overall findings and that it plans to take immediate actions to create standards and requirements and institute appropriate controls to ensure the integrity of financial management information contained in the ADP inventory system. IRS' comments are reprinted in appendix II.

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 recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government

Operations not later than 60 days after the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

We are sending copies of this report to the 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, House Committee on Governmental Operations, and the Subcommittee on Oversight, House Committee on Ways and Means; the Joint Committee on Taxation; the Secretary of the Treasury; the Director of the Office of Management and Budget; and other interested parties. Copies will be made available to others upon request.

This report was prepared under the direction of Gregory M. Holloway, Associate Director, Civil Audits, who may be reached on (202) 512-9510, if you or your staff have any questions. Major contributors to this report are listed in appendix III.

Sincerely yours,



Donald H. Chapin
Assistant Comptroller General

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Abbreviations

ADP	automated data processing
CFO	Chief Financial Officer
CRMS	Computer Resources Management System
GAO	General Accounting Office
IRS	Internal Revenue Service
OMB	Office of Management and Budget

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

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

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

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

Comments From the Internal Revenue Service



CHIEF FINANCIAL OFFICER

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

JUN 30 1993

Mr. Donald H. Chapin
Assistant Comptroller General
Accounting and Financial Management Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Chapin:

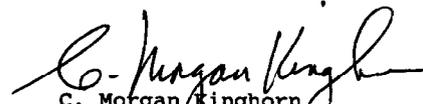
Thank you for the opportunity to comment on the GAO draft report IRS Accountability Over Its ADP Resources. This draft is the second of several we expect to receive as GAO continues the audit of our 1992 financial statements.

We agree with the concerns noted in the draft report. In the full spirit of the Chief Financial Officers Act of 1990, we have focused the authority and responsibility for improved financial systems and financial reporting with our Chief Financial Officer. Concerning the ADP inventory system, the Chief Financial Officer and the Chief Information Officer will coordinate immediate actions to create standards and requirements while instituting appropriate controls to ensure the integrity of the financial management information contained in that system.

The Service has begun efforts to secure complete and accurate inventory data to perfect the ADP inventory system. We will ensure that physical inventories are effectively performed and reconciled with the existing database, and that procedures related to the prompt and accurate recording of acquisitions and dispositions are developed.

We look forward to continuing our work with you in this important area of financial accountability.

Sincerely,


C. Morgan Kinghorn
Acting Chief Financial Officer

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