

**Controls Over the Financial Activities
of the Internal Revenue Service
Oversight Board Need to Be Improved**

August 2005

Reference Number: 2005-10-135

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 23, 2005

MEMORANDUM FOR CHAIRPERSON, INTERNAL REVENUE SERVICE OVERSIGHT
BOARD

Handwritten signature of Pamela J. Gardiner in cursive.

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Controls Over the Financial Activities of the
Internal Revenue Service Oversight Board Need to Be Improved
(Audit # 200410028)

This report presents the results of our review of the financial management of the Internal Revenue Service (IRS) Oversight Board. The overall objective of this review was to evaluate the extent and adequacy of controls over the budgeting of funds, recording of transactions, and financial reporting of the IRS Oversight Board. We also reviewed the IRS Oversight Board's Fiscal Year (FY) 2004 financial transactions. This review was conducted as a follow-on to our recently completed audit¹ of the effectiveness of the Oversight Board.

The Oversight Board was created as part of a series of reforms of the IRS included in the IRS Restructuring and Reform Act of 1998 (RRA 98).² The Oversight Board was established as an independent body responsible for providing the IRS with long-term guidance and direction. The operation of the Oversight Board is funded by the IRS based on a proposed budget submitted annually by the Oversight Board. The Department of the Treasury, Departmental Offices (DO), provides administrative support to the Oversight Board and advances it the funds necessary to meet its ongoing obligations. The IRS subsequently reimburses the DO for these costs quarterly.

¹ *The Oversight Board Has Achieved Much of Its Original Intent, but There Are Opportunities for Increased Effectiveness* (Reference Number 2004-10-193, dated September 2004).

² Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 38 U.S.C., and 49 U.S.C.).

In summary, the Oversight Board has significant weaknesses in its financial management controls and needs to more effectively monitor its operating funds. Specifically, controls over the funding of Oversight Board operations, recording of financial transactions, and reliability of financial management information need to be improved. In addition, our review of the activity reflected in the Oversight Board's financial reports for FY 2004 identified a number of instances where material financial transactions were not properly reflected. In addition, quarterly billings to the IRS for the operation of the Oversight Board were not certified as to their accuracy by the Chairperson, Oversight Board, as required. While the Oversight Board's FY 2004 budget of \$1.5 million is not large in comparison to the IRS' total budgetary resources of approximately \$11 billion, controls still need to be in place to properly manage and account for Oversight Board operations.

Oversight Board members also did not always adhere to Federal Government travel regulations when on official business. For example, Oversight Board members received both a no-cost meal provided by the Federal Government and a per diem cash payment for the same meal in 36 instances in FY 2004. Federal Government travel regulations require that travelers reduce their meals per diem whenever the Federal Government provides meals at no cost.

Finally, in our opinion, the Oversight Board's apparent dependence on the IRS for approval of its annual budget has the potential to adversely affect its independence and effectiveness. By being dependent on the IRS for approval of its annual budget, the Oversight Board could be perceived as being in conflict with its mandate to independently oversee the administration and management of the IRS. The RRA 98 does not specify a methodology for establishing the annual funding level of the Oversight Board.

We recommended the Chairperson, IRS Oversight Board, develop procedures to require the routine review of Oversight Board financial information for accuracy and the monitoring of open aged obligations. We also recommended the Chairperson, IRS Oversight Board, ensure all requests for reimbursement are reviewed and certified before submission. Additionally, we recommended the Chairperson, IRS Oversight Board, reinforce existing Federal Government travel guidelines regarding meal reimbursement to all current members and ensure new and incoming Board members are provided instructions on relevant Federal Government travel regulations before they incur travel expenses. Finally, we recommended the Chairperson, IRS Oversight Board, request that a separate line item within the Department of the Treasury budget be established for the Oversight Board's funding.

Management's Response: The Chairperson, IRS Oversight Board, concurred with the recommendations in the report. Procedures have been developed for Oversight Board staff to conduct a monthly review of all monthly cost reports and identify misclassified items or expected but unreported expenditures. Procedures have also already been developed for Oversight Board staff to conduct monthly reviews of open aged obligations. In addition, procedures have been developed for Oversight Board staff to certify quarterly requests for reimbursement submitted to the IRS. The DO's Travel

Handbook has been distributed to all Board members and staff; it will be incorporated into a Board Orientation Guide for new members. Finally, the Chairperson, IRS Oversight Board, will discuss with the Department of the Treasury appropriate mechanisms for funding the IRS Oversight Board to assure its independence from the IRS. Management's complete response to the draft report is included as Appendix V.

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

**Controls Over the Financial Activities of the Internal Revenue Service Oversight Board
Need to Be Improved**

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Controls Over the Financial Activities of the Internal Revenue Service Oversight Board Need to Be Improved

Background

On July 22, 1998, the President of the United States signed into law a series of reforms for the Internal Revenue Service (IRS) called the IRS Restructuring and Reform Act of 1998 (RRA 98).¹ The RRA 98 was enacted to improve the IRS so it can better serve taxpayers. In addition to many changes in the IRS, the Act also called for creation of the IRS Oversight Board, an independent body responsible to provide the IRS with long-term guidance and direction. The IRS Oversight Board consists of nine members, including the Secretary (or Deputy Secretary) of the Treasury and the IRS Commissioner. The 7 other members are appointed by the President, with the advice and consent of the Senate, for 5-year terms and are to be selected on the basis of their professional experience and expertise. The Oversight Board is authorized to appoint staff; as of November 2004, it had five staff members assisting in its duties, including a Staff Director and an Administrative Support Officer.

The IRS Oversight Board is responsible for overseeing the IRS in its administration, management, and application of the internal revenue laws. Its specific responsibilities include:

- Reviewing and approving IRS strategic plans, including the establishment of mission, objectives, and standards of performance relative to either.
- Reviewing the IRS' operational functions, including plans for tax systems modernization, outsourcing or managed competition, and training and education.
- Overseeing management of the IRS through recommending to the President candidates for appointment as the IRS Commissioner and, if necessary, recommending the Commissioner's removal; reviewing the selection, evaluation, and compensation of certain senior IRS executives who have program management responsibility over significant functions; and reviewing and approving the Commissioner's plans for any major IRS reorganization.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 38 U.S.C., and 49 U.S.C.).

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- Overseeing the IRS' budget through reviewing and approving the Commissioner's budget request, submitting the budget request to the Secretary of the Treasury, and ensuring the budget request supports the IRS' strategic plans.
- Ensuring the proper treatment of taxpayers by IRS employees.

The IRS Oversight Board has an annual operating budget that is funded by the IRS. The Department of the Treasury, Departmental Offices (DO), provides the administrative support, such as the recording of financial transactions and preparation of financial reports, necessary for the Oversight Board to function. The DO also advances the Oversight Board the funds necessary to meet its ongoing obligations. The DO is subsequently reimbursed for these costs by the IRS quarterly, based on an Interagency Agreement.² The Interagency Agreement specifies that the IRS will reimburse the DO for all costs associated with the IRS Oversight Board. Payments to the DO are made quarterly via the Intra-Governmental Payment and Collection System.³ The Oversight Board had an operating budget of \$1.5 million in Fiscal Year (FY) 2004.

The RRA 98 requires the IRS Oversight Board to include in its annual report to the Congress information on travel expenses by Board members. In FY 2003, the IRS Oversight Board reported that it incurred \$41,545 in travel expenses for its members and staff for travel relating to Board activities; however, travel expenses for FY 2004 have not yet been reported.

This review was performed at the Beckley Finance Center in Beckley, West Virginia, and the IRS Agency-Wide Shared Services and IRS Oversight Board offices in Washington, D.C., during the period December 2004 through February 2005. The audit was conducted in

² Interagency agreements are written agreements, entered into by two Federal Government agencies, that specify the goods to be furnished or the tasks to be accomplished by one agency in support of the other.

³ This is an Online Accounting Link System, which provides a standardized interagency fund transfer mechanism for Federal Government Program Agencies.

Controls Over the Financial Activities of the Internal Revenue Service Oversight Board Need to Be Improved

More Accurate and Detailed Management Information Would Better Assist the Oversight Board in Managing Its Operating Funds

accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

The DO provides the administrative support, such as the recording of financial transactions, necessary for the Oversight Board to function. The DO also provides the Oversight Board with monthly Financial Status Reports for use in managing its operating funds. The monthly Financial Status Reports detail both available balances in major spending categories and budgeted amounts. Timely and reliable financial management information is critical to effective program management.

Our review of the activity reflected in these Reports for FY 2004 identified a number of instances where material financial transactions were either misclassified or not properly reflected. For example:

- Communication consulting fees of approximately \$86,000 for services provided to the Oversight Board in FY 2004 were not reflected as expenditures in the Financial Status Reports.
- Communication consulting service expenditures of approximately \$15,000 were classified as fees paid to agents for the redemption of savings bonds.
- Outside contractor service expenditures to conduct public surveys and provide communication consulting services totaling approximately \$2,300 were classified as medical services.
- Outside contractor fees of approximately \$26,000 to conduct public surveys and provide communication consulting services in FY 2004 were not reflected as expenditures in the Financial Status Reports.

As a result of these errors, consulting expenditures were understated by approximately 72 percent. In addition, Oversight Board member compensation of approximately \$143,000 for FY 2004 is not reflected as an expenditure in the Financial Status Reports. These omissions resulted in Oversight Board salary expenditures being understated by approximately 16 percent.

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These errors can largely be attributed to a lack of adequate internal controls. For example, the Oversight Board has not established any formal procedures or guidelines requiring the routine review of its monthly Financial Status Reports for misclassified items or significant variances between expected and actual expenditures. The Oversight Board also has not established any formal procedures or guidelines requiring the tracking and monitoring of its open aged obligations. The Oversight Board informed us that the DO does not routinely provide it with information regarding transactions related to open aged obligations.

Inaccurate or incomplete financial management information impairs the ability of the Oversight Board to readily monitor the availability of funds remaining for the procurement of future services and compromises the ability of the Oversight Board to establish a reliable baseline when estimating future budget needs. In addition, the ability to timely deobligate unneeded funds and use them for other purposes is adversely affected by the lack of complete and reliable information about expenditures. Appendix IV presents details on the reliability of information outcome measure resulting from the identification of these errors.

While the Oversight Board's approved FY 2004 budget of \$1.5 million is not large in comparison to the IRS' total budgetary resources of approximately \$11 billion, controls still need to be in place to properly manage and account for Oversight Board operations.

Recommendations

The Chairperson, IRS Oversight Board, should:

1. Develop procedures requiring that monthly reports reflecting Oversight Board activity be routinely reviewed for misclassified items or significant variances between expected and actual expenditures. Any discrepancies identified should be researched and resolution coordinated with the DO.

Management's Response: Procedures have been developed for Oversight Board staff to conduct a monthly review of all monthly cost reports prepared by the Department of the Treasury Office of Financial Management (OFM) and

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identify misclassified items or expected but unreported expenditures. The procedure has been coordinated with the OFM to ensure it will timely support the resolution process. The Board Chairperson and Staff Director will quarterly review the status of the Board's expenditures.

2. Develop procedures, in coordination with the DO, requiring a) the ongoing preparation of management information regarding open aged obligations and b) the tracking and monitoring of these obligations.

Management's Response: Procedures have already been developed for Oversight Board staff to conduct a monthly review of open aged obligations. The procedures have been coordinated with the OFM, which has agreed to provide the Oversight Board with such a report monthly and to timely respond to Board inquiries.

Billings to the Internal Revenue Service for Reimbursement of Oversight Board Activities Were Not Certified As Required

The DO advances the Oversight Board the funds necessary to meet its ongoing obligations. The DO is subsequently reimbursed for these costs by the IRS quarterly. The detailed terms of this reimbursement process are contained in an Interagency Agreement between the DO and the IRS. As part of this Agreement, the Chairperson of the Oversight Board, or his or her designee, is required to certify as reasonable and necessary all costs submitted to the IRS for reimbursement. The Interagency Agreement is updated annually.

The requests for reimbursement in FY 2004 that we reviewed were not certified as to their accuracy by the Chairperson of the Oversight Board, or his or her designee, nor were they reconciled to the Oversight Board's monthly Financial Status Reports to ensure accuracy and completeness.

Our review of the reimbursement requests submitted to the IRS for FY 2004-related expenditures indicated that, in general, they mirrored the activity reflected in the Oversight Board's monthly Financial Status Reports. However, as discussed previously, these Reports contained material errors.

The Oversight Board informed us that the DO prepares the reimbursement requests from the financial transactions of the Oversight Board, which it maintains on its accounting

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system, and sends them directly to the IRS. Without a timely and careful review of these reimbursement requests, the Oversight Board cannot be assured that they are complete, accurate, and contain only charges related to the operation of the Oversight Board.

Recommendation

The Chairperson, IRS Oversight Board, should:

3. Develop procedures requiring that all requests for reimbursement be forwarded to the Oversight Board for review and certification.

Management's Response: Procedures have been developed for Oversight Board staff to certify quarterly requests for reimbursement submitted to the IRS. The OFM has adopted a companion procedure to submit these requests to the Staff Director, IRS Oversight Board, prior to their submission to the IRS. The Oversight Board will reconcile each request with the financial reports for the months included in the request and, once reconciled, will so notify the IRS by memorandum.

Improvements Are Needed to Ensure Board Members Adhere to Federal Government Travel Regulations When on Official Business

Federal Government travel regulations require that travelers reduce their meals per diem whenever the Federal Government provides meals at no cost. Additionally, Federal Government travel regulations specify that travelers may receive reimbursement for actual travel expenses only when necessary due to the unusual circumstances of an assignment. However, Oversight Board members did not always adhere to the regulations when performing official travel. For example:

- Oversight Board members received both a no-cost meal provided by the Federal Government and a per diem cash payment for the same meal in 36 instances in FY 2004. The Staff Director, IRS Oversight Board, informed us the meals were provided in conjunction with Oversight Board meetings. The per diem payments generally ranged between \$10 and \$26, depending on the type of meal, and totaled approximately \$485 for FY 2004.

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- A new Oversight Board member incurred lodging costs which significantly exceeded the maximum allowable costs reimbursable by the Federal Government under Federal travel guidelines. The excess expenditure was reimbursed by the Federal Government. The Oversight Board member was attending a regularly scheduled Board meeting and indicated that he was unaware of the reimbursement guidelines.

These issues can be attributed to a number of factors, including unfamiliarity with the unique nature of Federal Government travel regulations and the absence of formalized communication procedures for the orientation of new Oversight Board members. Lack of consistent adherence to Federal Government travel regulations could result in disparate treatment of Federal Government travelers and inappropriate use of Federal Government funds.

Recommendation

The Chairperson, IRS Oversight Board, should:

4. Reinforce Federal Government travel guidelines regarding meal reimbursement to all current members and ensure new and incoming Board members are provided instructions on relevant key Federal Government travel regulations before they incur travel expenses.

Management's Response: The DO's Travel Handbook has been distributed to all Board members and staff by the Oversight Board Chairperson. With new Board members likely to be nominated shortly, the Travel Handbook will be incorporated into a Board Orientation Guide for new members.

**A Better Funding Methodology
Would Help Ensure the
Independence and Effectiveness
of the Oversight Board**

The creation of the IRS Oversight Board was part of many changes in the IRS mandated by the RRA 98. The RRA 98 specified the duties and responsibilities of the Board, as well as its organizational structure, and set its size at nine members. The Oversight Board was specifically designed to be an independent body responsible for providing the IRS with long-term guidance and direction. The operation of the

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Oversight Board is funded by the IRS based on a proposed budget submitted annually by the Board.

The DO provides administrative support to the Oversight Board and advances it the funds necessary to meet its ongoing obligations. The IRS subsequently reimburses the DO for these costs quarterly, based on an Interagency Agreement. The Interagency Agreement requires annual approval by the IRS and specifies the maximum funding level of the Oversight Board for the year.

Our review indicated that the process used to establish the annual funding of the Oversight Board needs to be improved. In our opinion, the Oversight Board's apparent dependence on the IRS for approval of its annual budget has the potential to adversely affect its independence and effectiveness. Specifically, the IRS could be perceived as potentially having undue influence over the entity established to independently oversee its administration and management. The RRA 98 does not specify a methodology for establishing the annual funding level of the IRS Oversight Board.

Recommendation

The Chairperson, IRS Oversight Board, should:

5. Request that the Department of the Treasury establish a separate line item within its budget for the funding of the Oversight Board.

Management's Response: The Chairperson shall discuss with the Department of the Treasury appropriate mechanisms for funding the IRS Oversight Board to assure its independence from the IRS. The Board notes that the House Appropriations Subcommittee on Transportation, Treasury, and Housing and Urban Development; the Judiciary; and the District of Columbia have recently addressed this issue in the committee report for the FY 2006 appropriation bill by specifying \$1.5 million for the operations of the IRS Oversight Board.

Controls Over the Financial Activities of the Internal Revenue Service Oversight Board Need to Be Improved

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the extent and adequacy of controls over the budgeting of funds, recording of transactions, and financial reporting of the Internal Revenue Service (IRS) Oversight Board. We also reviewed the IRS Oversight Board's Fiscal Year (FY) 2004 financial transactions. This review was conducted as a follow-on to our recently completed audit¹ of the effectiveness of the Oversight Board. To accomplish this objective, we:

- I. Evaluated the methodology used by the IRS Oversight Board to formulate and monitor its annual operating budget.
 - A. Interviewed the Oversight Board Chief of Staff to determine how the annual operating budget was established, approved, and monitored.
 - B. Evaluated the FY 2004 budget, determined whether it was reasonable in comparison to actual expenditures for FY 2003, and investigated line items with significant variances.
 - C. Determined whether execution of the FY 2004 budget was effectively monitored and investigated any FY 2004 line item expenditures that varied significantly from the budgeted amounts.
 - D. Analyzed the IRS Oversight Board Operational Expenditure Interagency Agreements for FYs 2003 and 2004.
- II. Analyzed the effectiveness of internal controls over the execution and recording of IRS Oversight Board financial transactions.
 - A. Interviewed the Oversight Board Chief of Staff to determine procedures relating to the execution and recording of financial transactions.
 - B. Analyzed IRS Oversight Board financial transactions for FY 2004.
- III. Evaluated compliance with Federal Government financial reporting requirements.
 - A. Evaluated the methodology used to accumulate and compile financial management information regarding IRS Oversight Board expenditures.
 - B. Determined whether the IRS Oversight Board has effective controls to ensure the timely deobligation of funds no longer needed.

¹ *The Oversight Board Has Achieved Much of Its Original Intent, but There Are Opportunities for Increased Effectiveness* (Reference Number 2004-10-193, dated September 2004).

**Controls Over the Financial Activities of the Internal Revenue Service Oversight Board
Need to Be Improved**

Appendix II

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

John R. Wright, Director

Anthony J. Choma, Audit Manager

Joseph F. Cooney, Lead Auditor

Robert W. Beel, Senior Auditor

Thomas Dori, Senior Auditor

Rashme Sawhney, Auditor

Seth A. Siegel, Auditor

**Controls Over the Financial Activities of the Internal Revenue Service Oversight Board
Need to Be Improved**

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
United States Senate Committee on Finance
United States Senate Committee on Governmental Affairs
United States Senate Committee on Governmental Appropriations
United States House of Representatives Committee on Appropriations
United States House of Representatives Committee on Government Reform
United States House of Representatives Committee on Ways and Means
Staff Director, IRS Oversight Board

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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; approximately \$279,000 in expenditures (see page 3).

Methodology Used to Measure the Reported Benefit:

We found a number of errors in the Fiscal Year (FY) 2004 accounting records of the Internal Revenue Service (IRS) Oversight Board and control weaknesses that could prevent the Oversight Board from timely identifying transactions that are misclassified or not properly recorded. The outcome measure recorded represents the aggregate amount of the errors we could identify, which consists of approximately \$272,000 shown in the report and an additional \$7,000 in various miscellaneous expenses. Because the IRS Oversight Board did not have effective controls over the accuracy and reliability of information in its records at the time of our review, we were unable to readily determine the precise amount of Oversight Board expenditures related to its \$1.5 million budget for FY 2004. We define the reliability of information as ensuring the accuracy, validity, relevance, and integrity of data use.

**Controls Over the Financial Activities of the Internal Revenue Service Oversight Board
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Appendix V

Management's Response to the Draft Report

**RECEIVED
AUG 04 2005**

**IRS
OVERSIGHT
BOARD**



**MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION**

August 3, 2005

FROM: Raymond T. Wagner, Jr. 
Chair, IRS Oversight Board

SUBJECT: Response to Draft Audit Report—Control Over the financial Activities of the
Internal Revenue Service Oversight board Need to Be Improved (Audit #
200410028)

The Internal Revenue Service (IRS) Oversight Board has reviewed the draft audit report. We appreciate the efforts by the Treasury Inspector General for Tax Administration (TIGTA) in performing this audit as a follow-on to your previous audit on the operations of the Board. (Audit # 2003100360).

Your recommendations for specific actions to improve the Board's effectiveness are sound and the Board appreciates your efforts to help us improve our internal operations. To indicate our commitment to address your findings, the Board has worked with the Treasury Departmental Offices (DO) Office of Financial Management (OFM) to develop additional procedures to implement your recommendations and has already put those procedures into place.

As you noted in the audit report, the Oversight Board receives its administrative support from the OFM, and the Board has been working with the OFM to address the issues you reported in the audit report. As we have discussed with your audit staff, several of the issues were known prior to the audit and discussions with OFM were underway to resolve these issues. Your report has provided additional impetus to resolving them.

You have also noted problems with reimbursements for travel expenses for meals and refreshments provided by the Board for a total of \$485 in FY2004. Although you did not call for this action, I can report that this amount has been reimbursed to the US Treasury by the Board members who had inadvertently received the additional payments for meals and refreshments provided by the Board. In addition, the Board will no longer be purchasing any meals for its members during Board meetings.

We invited and welcomed this audit, along with its companion audit noted above, which are the first such audits since the Board's inception in September 2000. Because of the important role the Board has in the governance of the IRS, and the need for the Board's affairs to be completely in order, I formally invite you to re-audit the financial controls of the Board for FY2005.

Specific comments on your recommendations are presented below.

1500 Pennsylvania Avenue, NW • Washington, DC 20220

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Recommendation 1

The Chairperson, IRS Oversight Board, should develop procedures requiring that monthly reports reflecting Oversight Board activity be routinely reviewed for misclassified items or significant variances between expected and actual expenditures. Any discrepancies identified should be researched and resolution coordinated with the DO.

Corrective Action

Procedures have been developed for Oversight Board staff to conduct a monthly review of all monthly cost reports prepared by OFM and identify misclassified items or expected but unreported expenditures. The procedure has been coordinated with OFM to ensure it will support the resolution process in a timely manner. The Board Chair and Staff Director will quarterly review the status of the Board's expenditures.

Implementation Date

Immediate

Responsible Official(s)

Chairperson, IRS Oversight Board
Staff Director, IRS Oversight Board
Director, OFM

Recommendation 2

The Chairperson, IRS Oversight Board, should develop procedures, in coordination with the DO, requiring a) the ongoing preparation of management information regarding open aged obligations and b) the tracking and monitoring of these obligations.

Corrective Action

Procedures have already been developed for Oversight Board staff to conduct a monthly review of open aged obligations. The procedure has been coordinated with OFM, who has agreed to provide the Oversight Board with such a report monthly and respond to Board inquiries in a timely manner.

Implementation Date

Immediate

Responsible Official(s)

Chairperson, IRS Oversight Board
Staff Director, IRS Oversight Board
Director, OFM

Recommendation 3

The Chairperson, IRS Oversight Board, should develop procedures requiring that all requests for reimbursement be forwarded to the Oversight Board for review and certification.

Corrective Action

Procedures have been developed for Oversight Board staff to certify quarterly requests for reimbursement submitted to the IRS. The OMF has adopted a companion procedure to submit these requests to the Staff Director, IRS Oversight Board, prior to their submission to the IRS. The Oversight Board will reconcile the request with the financial reports for the months included in the request, and, once reconciled, will so notify the IRS by memo.

Implementation Date

Controls Over the Financial Activities of the Internal Revenue Service Oversight Board Need to Be Improved

Immediate

Responsible Official(s)

Chairperson, IRS Oversight Board
Staff Director, IRS Oversight Board
Director, OFM

Recommendation 4

The Chairperson, IRS Oversight Board, should reinforce Federal Government travel guidelines regarding meal reimbursement to all current members and ensure new and incoming Board members are provided instructions on relevant key Federal Government travel regulations before they incur travel expenses.

Corrective Action

The Departmental Office's Travel Handbook has been distributed to all Board members and staff by the Oversight Board Chair. With new Board members likely to be nominated shortly, the Travel Handbook will be incorporated into a Board Orientation Guide for new members.

Implementation Date

Immediate for distribution of Travel Handbook. Prospective new Board members will be provided the Travel Handbook after they are nominated.

Responsible Official

Staff Director, IRS Oversight Board

Recommendation 5

The Chairperson, IRS Oversight Board, should request the Department of the Treasury establish a separate line item within its budget for the funding of the Oversight Board.

Corrective Action

The Chairperson shall discuss with the Department of the Treasury appropriate mechanisms for funding the IRS Oversight Board to assure its independence from the IRS. The Board notes that the House Appropriations Subcommittee on Transportation, Treasury, and Housing and Urban Development, The Judiciary, and the District of Columbia has recently addressed this issue in the committee report for the FY2006 appropriation bill by specifying \$1.5 million for the operations of the IRS Oversight Board.

Implementation Date

At the earliest opportunity

Responsible Official

Chair, IRS Oversight Board

You requested that I concur with TIGTA's assessment that its recommendations provide a potential measurable benefit of \$279,000 in the area of reliability of information. I am concerned an outside observer may infer incorrectly that \$279,000 in savings could be achieved when this is not the case. Although this amount may have been misclassified by OFM, the proper classification of those expenses does not save any money per se. However, it will result in more reliable reporting for those expenses.