The Internal Revenue Service Oversight Board Has Taken Actions to Improve Its Financial Management, but Continuing Weaknesses Were Identified

June 18, 2010

Reference Number: 2010-10-052

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THE INTERNAL REVENUE SERVICE OVERSIGHT BOARD HAS TAKEN ACTIONS TO IMPROVE ITS FINANCIAL MANAGEMENT, BUT CONTINUING WEAKNESSES WERE IDENTIFIED

Highlights

Final Report issued on June 18, 2010

Highlights of Reference Number: 2010-10-052 to the Chairperson, Internal Revenue Service Oversight Board.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 called for the creation of the IRS Oversight Board (Board), which is an independent body responsible for providing the IRS with long-term guidance and direction. The Board is responsible for overseeing the IRS in its administration, management, and application of the Internal Revenue laws, as well as budgetary oversight. As a result, it is important that the Board maintain proper financial controls over its own budgetary process and ensure proper stewardship of taxpayer funds.

WHY TIGTA DID THE AUDIT

This audit is a followup review to determine whether the Board adequately addressed significant financial management control deficiencies previously identified by TIGTA in Fiscal Year 2005. The overall objective of this review was to evaluate the effectiveness of actions taken by the Board to resolve conditions reported in our prior audit, which found that the Board did not have adequate internal controls and some controls that were in place were not followed. Also, the manner in which the Board's annual budget was determined may give the appearance that the Board is not independent from the IRS.

WHAT TIGTA FOUND

Our review identified that while procedures and controls have been implemented since our last audit, not all procedures and controls are being adequately followed. TIGTA determined that the Board does not effectively monitor its financial activities and did not timely identify approximately $2.2 million in potential excess funds for Fiscal Years 2005 through 2009. In addition, the Board is still not certifying the accuracy of costs associated with Board activities submitted to the IRS for reimbursement to ensure that all expenses are reasonable and necessary. However, TIGTA did not identify any misclassified or unreported transactions for Fiscal Year 2009.

Further, the Board has implemented a new process to administer travel performed by Board members; however, it was not consistently followed. As a result, TIGTA identified certain travel expenses that did not comply with established travel guidelines but were reimbursed by the Government.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chairperson, IRS Oversight Board, ensure established policies are followed to track and analyze unliquidated obligations to determine whether funding levels are on target. TIGTA also recommended that the Board take action to receive billing information as required and coordinate to ensure reimbursement from the IRS is not requested until the Board certifies the accuracy of expense information. Additionally, the Board should develop detailed procedures related to arranging and processing Board travel-related transactions, provide all Board members and staff with annual training on travel-related procedures, and require that the expenses incorrectly reimbursed be repaid to the Federal Government.

In its response to the report, the Board agreed with our recommendations. Specifically, the Board has updated its procedures to identify and deobligate excess funds and plans to work with the IRS Chief Financial Officer to certify billings before payment, has developed its own travel guide tailored to the needs of Board travelers, and plans to train all members and staff via an annual distribution of the guide. Finally, all travel funds incorrectly reimbursed have been repaid.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 18, 2010

MEMORANDUM FOR CHAIRPERSON, INTERNAL REVENUE SERVICE OVERSIGHT BOARD

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Internal Revenue Service Oversight Board Has Taken Actions to Improve Its Financial Management, but Continuing Weaknesses Were Identified (Audit # 200910028)

This report presents the results of our review of the Internal Revenue Service Oversight Board (Board). The overall objective of this review was to evaluate the effectiveness of actions taken by the Board to resolve conditions reported in our prior audit of its financial activities. This audit was conducted as part of the Treasury Inspector General for Tax Administration's Fiscal Year 2010 Annual Audit Plan and was a followup review to a Fiscal Year 2005 Treasury Inspector General for Tax Administration report[1] that found significant weakness in the financial management of the Board's operating funds.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.

[1] *Controls Over the Financial Activities of the Internal Revenue Service Oversight Board Need to Be Improved* (Reference Number 2005-10-135, dated August 23, 2005).

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Abbreviations

Board	Internal Revenue Service Oversight Board
DO	Departmental Offices
FY	Fiscal Year
IRS	Internal Revenue Service

Background

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998[1] called for creation of the IRS Oversight Board (Board), which is an independent body responsible for providing the IRS with long-term guidance and direction. The 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 selected on the basis of their professional experience and expertise. The Board maintains an administrative staff to assist in the fulfillment of its duties and had an annual operating budget of $2 million in Fiscal Year (FY) 2009. The Board is responsible for overseeing the IRS in its administration, management, and application of the Internal Revenue laws. As part of these responsibilities, the Board is specifically tasked with:

The IRS Oversight Board is an independent body responsible for providing the IRS with long-term guidance and direction.

- Reviewing and approving the budget request of the IRS prepared by the Commissioner.
- Ensuring that the budget request supports the annual and long-range IRS strategic plans.
- Submitting the IRS' budget request to the Secretary of the Treasury.

Having major responsibility in providing budgetary oversight of the IRS, it is important that the Board also adhere to sound budgetary practices and maintain proper financial controls of its own budgetary process and data.

This is a followup review to determine whether the Board adequately addressed significant financial management control deficiencies previously identified by the Treasury Inspector General for Tax Administration in FY 2005.[2] In that audit, we found that the Board did not have adequate internal controls and some controls that were in place were not followed. Also, we reported that the manner in which the Board's annual budget is determined may give the appearance that the Board is not independent from the IRS. We recommended that the Chairperson, IRS Oversight Board:

- Develop procedures to require the routine review of the Board's financial information for accuracy and the monitoring of open-aged obligations.

[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., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[2] *Controls Over the Financial Activities of the Internal Revenue Service Oversight Board Need to Be Improved* (Reference Number 2005-10-135, dated August 23, 2005).

- Ensure all requests for reimbursement are reviewed and certified before submission.
- Reinforce existing Federal Travel Regulations regarding meal reimbursement to all current members and ensure new and incoming Board members are provided instructions on relevant regulations before they incur travel expenses.
- Request that a separate line item within the Department of the Treasury budget be established for the Board's funding.

This review was performed at the Board's office located in Washington, D.C., during the period August 2009 through January 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Our review identified that while procedures and controls have been implemented since our last audit, not all procedures and controls are being adequately followed to effectively monitor the Board's financial activities. Weak financial management controls impair the ability of the Board to ensure financial transactions are accurate and appropriate. In addition, the Board did not effectively monitor available funds to ensure excess funds were timely identified and released as required. As a result, the Board increases the risk of not complying with Appropriations guidelines by potentially using excess prior year funds to pay for current year expenses.[3] Furthermore, other Federal agencies with valid financial needs were unable to use funds not spent by the Board since the Board did not release this money as required. While we did not identify any underfunding issues related to the Board's operations, monitoring of available funds is particularly important because potential underfunding could impact the Board's compliance with the Anti-Deficiency Rules.[4]

Since our last audit, the Board has taken several actions in an effort to improve financial management controls. Specifically, procedures have been developed for Board staff to conduct a monthly review of the cost reports prepared by the Department of the Treasury Departmental Offices (DO). This review should assist the Board in improving the reliability of the financial information by identifying misclassified items or expenditures that were incurred but were not included on the cost report as required. Our review of the cost reports for FY 2009 did not show any misclassified or unreported transactions.

Further actions have been taken to eliminate the Board's dependence on the IRS for approval of its annual budget. The Board's budget appropriation is no longer determined by the IRS. Specifically, the Board's funding is established by an annual Congressional appropriation. While these actions are a positive step in addressing the weaknesses we identified in our prior review, we believe further actions are necessary to more effectively control and monitor the Board's financial operations. We also noted that the Board's annual budget increased from $1.5 million in FY 2006 to $2 million in FY 2009.

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[3] 31 U.S.C. § 1535(d) states that "An order placed or agreement made under this section obligates an appropriation of the ordering agency or unit. The amount obligated is deobligated (sic) to the extent that the agency or unit filling the order has not incurred obligations, before the end of the period of availability of the appropriation."
[4] 31 U.S.C. § 1341(a)(1)(A) prohibits "Making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law."

Financial Controls Were Not Always Followed to Monitor Available Funds and Certify the Accuracy of Expenses

The Board can take additional actions to more effectively administer its available funds. Specifically, we determined that the Board did not effectively monitor available funds to ensure excess funds were timely identified and released as required. In addition, the Board is still not certifying the accuracy of costs associated with Board activities submitted to the IRS for reimbursement to ensure that all expenses are reasonable and necessary.

Board staff was not effectively monitoring available funds throughout the year

In our prior report, we determined that the Board had not established any formal procedures or guidelines requiring the tracking and monitoring of its open-aged obligations, which could have identified excess funds available for deobligation. In our opinion, the Board could have accomplished this analysis by comparing its monthly cost report received from the DO to monthly incurred expenses. This evaluation would have provided needed information about monthly expenses and whether excess funds may be available for deobligation. By law, Federal agencies are required to release (or deobligate) appropriated funds that have not been spent by the end of the fiscal year. In response to this concern, the Board said it had established procedures to compare expenses to monthly cost reports provided by the DO. This process should have enabled the Board to timely identify excess funds or potential shortfalls and take appropriate action to address these issues.

In this review, we confirmed that the Board now has documented procedures in place for conducting monthly reviews of the cost reports and is following those procedures. Additionally, the Board also developed procedures for analyzing its open-aged obligations. However, we found that the Board does not effectively monitor its open-aged obligations to timely deobligate significant excess funds. We also noted that the Board's annual budget increased from $1.5 million in FY 2006 to $2 million in FY 2009. As a result of the increased funding levels, closer oversight and management of the Board's expenses is required. By not following established procedures in monitoring open-aged obligations, the Board did not take timely actions to deobligate significant excess funds. Our comparison of the annually appropriated[5] amounts for FYs 2005–2009 to billing information found that there is potentially $2.2 million in unliquidated obligations. These funds were no longer needed for their original purpose and should have been deobligated by the Board as required.

[5] Appropriation is defined in the IRS Internal Revenue Manual 1.33.4-3 as "a provision of law (not necessarily in an Appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an Appropriation provides budget authority." Budget authority is defined as "the authority provided by law to incur financial obligations that will result in outlays…"

Figure 1: Unliquidated Obligations Not Timely Deobligated FYs 2005–2009[6]

Fiscal Year	Appropriation	Total Expenses Billed	Unliquidated Obligations (remaining after Fiscal Year End)
2005	$ 1,500,000	$ 1,374,757	$ 125,243
2006	1,500,000	1,282,725	217,275
2007	2,000,000	1,351,613	648,387
2008	2,000,000	1,491,261	508,739
2009	2,000,000	1,320,668	679,332
Totals	$ 9,000,000	$ 6,821,024	$ 2,178,976

Source: Congressional appropriations and DO billings

By not deobligating these funds, the Board increases the risk that it could inadvertently use prior year funds to pay for current year expenses, which is expressly prohibited by law.[7] In addition, other Federal agencies with valid financial needs were unable to use this excess money due to the failure of the Board to deobligate this money as required.

Financial information was not always reviewed for accuracy prior to reimbursement by the IRS

In our prior report, we found that procedures did not exist requiring the routine review of the monthly Financial Status Reports to ensure that any misclassified items or significant variances between expected and actual expenditures were identified and corrected. Timely and reliable financial management information is critical to effective program management. The prior audit also found that procedures did not exist requiring the Board to certify, as reasonable and necessary, all costs submitted to the IRS for reimbursement. As a result, the Board could not provide assurance to the IRS that the billings were complete, accurate, and contained only charges related to its operations. For example, the Board's expenditures recorded on its books and records could contain significant variances than those recorded by the DO. Thus, it is possible that the IRS could reimburse the DO for overstated expenses or underpay because not all expenses are reported as required.

During this review, we confirmed that the Board developed procedures to require Board staff to reconcile billing information to its books and records. By performing this reconciliation, the

[6] Board staff stated that all billings for FY 2009 had not been received. Therefore, this amount is subject to change based on the final billing for FY 2009.
[7] 31 U.S.C § 1502(a) "bona fide needs" statute stipulates that "Appropriations made for a definite period of time may be used only for expenses properly incurred during that time."

Board should be able to provide assurance to the IRS that the expenses are accurate and should be reimbursed. Our review of the cost reports for FY 2009 did not show any misclassified or unreported transactions.

Additionally, implementation of these procedures would comply with the terms of the Board's established agreement with the IRS and DO because it requires that the Board certify the expenses billed by the DO prior to reimbursement by the IRS. These procedures state that the Board will certify the expenses contained in the billing information and inform the IRS, by memorandum, that the billing contains costs that are reasonable and necessary and therefore should be reimbursed by the IRS to the DO.

To enable the Board to certify the accuracy of expenses reimbursed by the IRS, procedures state that the DO is required to provide the billing information to the Board prior to the DO requesting reimbursement from the IRS. By providing the Board with an advance billing, the Board can review and certify the expenses before the IRS reimburses the DO.

Although these procedures have been established, we determined that they are not being followed by the Board staff. Specifically, the DO is not providing the Board with advance copies of the billings that the DO plans to submit to the IRS for reimbursement. In addition, established procedures also require the Board to receive the official billing information from the DO on a quarterly basis detailing the amount that was actually reimbursed by the IRS. However, we also found that these quarterly billings are not received by the Board as required. It did not appear that the Board took any action to secure these reports. As a result, the Board staff informed us that the billing information is not reconciled to the Board's financial reports. The Board also does not certify the billings before payment is made by the IRS. The staff believes that their review of the monthly financial reports provides assurance that the amounts reimbursed are accurate. However, we disagree because the billing information prepared by the DO represents the actual expenses attributed to the Board and should be reviewed prior to reimbursement to ensure accuracy and compliance with the established agreement between the Board, IRS, and DO.

By not following established procedures, there is an increased risk that the Board will not timely identify inaccurate expenses reflected on the DO's billing information before those expenses are incorrectly reimbursed to the DO.

Recommendations

The Chairperson, IRS Oversight Board, should:

Recommendation 1: Ensure that established policies are followed to track and analyze monthly unliquidated obligations to determine whether funding levels are on target. The procedures should be updated to include a requirement that a Board administrator document, on an annual basis, the reason why any material unliquidated funds are not released.

Management's Response: The IRS Oversight Board agreed with this recommendation and has updated its procedures to require the Board's staff to prepare an annual financial report to the Board's Chairperson that compares the planned and actual expenditures during the year and requires financial reviews at the end of July, August, and September to identify and deobligate excess funds.

Recommendation 2: Contact the DO to ensure the Board receives the billing information (both in advance and quarterly reports) as required. In addition, the Board should coordinate with the DO to ensure the reports requesting reimbursement from the IRS are not sent by the DO until the Board certifies the accuracy of expense information in accordance with established procedures.

Management's Response: The IRS Oversight Board agreed with this recommendation and has established an agreement between the Board and the IRS Chief Financial Officer. The Chief Financial Officer will request that the Board certify all Interagency Payments and Collections billing requests prior to payment to the Department of the Treasury. Also, future interagency agreements will contain language specifying that the IRS Chief Financial Officer will request that the Board certify all Interagency Payments and Collections requests received from the Bureau of Public Debt.

Federal Travel Regulations Were Not Always Followed by Board Members

In our prior audit, we identified instances in which Board members did not adhere to the established travel regulations when performing official travel. At the time, we recommended that the Board reinforce travel guidelines and ensure new Board members are provided instructions on relevant requirements before they incur travel expenses. Although the Board stated it would distribute the DO Travel Handbook to all Board members and staff and incorporate it into an Orientation Guide for new members, we determined that these actions were not taken. As a result, during this audit we again identified some travel performed by the Board members that was not in compliance with official travel guidelines.

Although the Board has implemented a new process to administer travel performed by Board members, we determined that it was not consistently followed. Specifically, one Board staff analyst is now solely responsible for all travel-related arrangements and reimbursement processing for Board members. The Board informed us that having one person control all travel arrangements and related processing helps avoid any potential travel issues. However, we identified some Board members that arranged their own travel without the assistance of the designated Board staff analyst. As a result, we identified certain travel expenses that did not comply with established travel guidelines but were reimbursed by the Government. Specifically, we found 4 travel vouchers claiming reimbursement for noncontracted airfare as well as travel agent fees and penalties totaling $420.[8] Although the use of noncontracted airfare is allowed for Government travel with a documented justification, none was provided in these cases. Official travel guidelines state that penalties and fees resulting from unauthorized use of a noncontract carrier should be paid by the individual.

We believe this issue can be attributed to a number of factors, including:

- Lack of written procedures clearly outlining the Board's travel policies.
- Private sector Board members not being familiar with official Government travel guidelines and requirements.

Lack of consistent compliance with required travel regulations could result in disparate treatment of Federal Government travelers and inappropriate use of Federal Government funds.

Recommendations

The Chairperson, IRS Oversight Board, should:

Recommendation 3: Prepare detailed procedures regarding the arrangement and processing of all Board travel-related transactions.

> **Management's Response:** The IRS Oversight Board agreed with this recommendation and has developed its own travel guide tailored to the needs of Board travelers. The guide has been distributed to all its current members and will be distributed to all new members in the future.

Recommendation 4: Provide all Board members and staff with annual training in Board travel procedures and official travel guidelines.

> **Management's Response:** The IRS Oversight Board agreed with this recommendation and will train all members and staff via an annual distribution of the Travel Guide. In addition, the Board's Administrative Support Manager will remain updated on current GovTrip[9] policies through training provided by the Department of the Treasury as needed.

Recommendation 5: Require that the $420 incorrectly reimbursed be repaid to the Federal Government.

> **Management's Response:** The IRS Oversight Board agreed with this recommendation and indicated that the money has been repaid.

[8] Three of 4 travel vouchers included expenses for travel agent fees of $40 ($120) and 2 of 4 vouchers included penalties of $150 each ($300).
[9] GovTrip is an E-Gov Travel Service which includes an online booking engine, travel management services, and a travel authorization and vouchering system.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the effectiveness of actions taken by the Board to resolve conditions reported in our prior audit of the Board's financial activities. To accomplish this objective, we:

I. Determined what actions were taken by the Board in response to recommendations made in the prior financial management review and identified any new financial management controls that were implemented.

   A. Interviewed the Board Staff Director.

   B. Obtained and reviewed any procedures developed requiring monthly reports to be reviewed for misclassified or significant variances between expected and actual expenditures.

   C. Reviewed any procedures developed to monitor and track open-aged obligations.

   D. Determined the process followed to approve Board members' travel to ensure compliance with official travel guidelines and identified how members are informed of relevant guidelines.

II. Assessed whether conditions identified in the prior audit continue to exist and whether corrective actions were effective.

   A. Reviewed all transactions contained on monthly Financial Status Reports for FY 2009 to determine whether they were properly classified and reported.

   B. Obtained and reviewed all reimbursement information submitted to the IRS in FY 2009 to ensure all reports were provided to Board management for review and certification and that recorded expenses were reasonable and necessary.

   C. Reviewed all travel reimbursement vouchers filed by Board members during FY 2009 to ensure the vouchers were in compliance with travel guidelines and expenses were properly approved.

   D. Obtained the FY 2009 Department of the Treasury Budget to confirm whether the Board's budget amount was listed as a separate line item appropriation and to identify how the annual funding level of the Board is currently established.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: Department of the Treasury and statutory guidelines as well as IRS policies, procedures, and practices for financial management controls regarding the monitoring and tracking of expenses related to the Board's performance of its duties. We evaluated these controls by interviewing Board staff, reviewing applicable documentation, and testing transactions.

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Jeffrey M. Jones, Director
Joseph F. Cooney, Audit Manager
Yasmin B. Ryan, Lead Auditor
Seth A. Siegel, Senior Auditor
Chinita M. Coates, Auditor
Chanda L. Stratton, Auditor

Appendix III

Report Distribution List

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Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
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Audit Liaison: Chief Financial Officer OS:CFO

Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Funds Put to Better Use – Potential; $2,178,976 could have been deobligated and made available to other Federal agencies with valid financial needs for FYs 2005–2009 (see page 4).

Methodology Used to Measure the Reported Benefit:

We compared the expenses billed by the DO to the IRS for reimbursement of the Board's expenses to the FYs 2005 through 2009 appropriated budgeted amounts to determine the excess amounts that were not deobligated at the end of each fiscal year. We found that although the Board has information available and procedures in place to identify excess funds, it is not using that information. We identified statutory requirements that require the Board to deobligate these funds prior to the end of the appropriation period so that the funds can be made available to other agencies that have valid needs.

Type and Value of Outcome Measure:

- Questioned Costs – Actual; $420 in penalties and fees incurred for noncontracted airfare that was booked through a private travel agency (see page 7).

Methodology Used to Measure the Reported Benefit:

We reviewed all travel vouchers filed by Board members during FY 2009 and compared them to official travel guidelines to ensure that the vouchers were in compliance with travel guidelines. We found that 3 of 4 travel vouchers included expenses for travel agent fees of $40 ($120) and 2 of the 4 vouchers included penalties of $150 each ($300). The additional fees and penalties are the responsibility of the traveler if a nongovernment contract fare is used and no justification is provided.

Appendix V

Management's Response to the Draft Report

IRS Oversight Board

RECEIVED
MAY 24 2010
BY: DAS

May 24, 2010

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM Paul Cherecwich, Jr. *Paul Cherecwich, Jr.*
Chair, IRS Oversight Board

SUBJECT: Response to Draft Audit Report—The Internal Revenue Service Oversight Board Has Taken Actions to Improve its Financial Management, But Continuing Weaknesses Were Identified (Audit Number 200910028)

The Internal Revenue Service (IRS) Oversight Board has reviewed the subject 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 financial operations of the Board. (Audit Number 200410028).

Your efforts to help the Board improve its internal operations are appreciated as are your recommendations for specific actions. As you found during the audit, the Board has implemented additional financial control procedures since TIGTA's 2004 audit. The primary finding from the current audit is that the Board needs to take additional action to ensure that excess funds not needed by the Board are de-obligated in a timely fashion. A second finding is that the Board must take action to certify the accuracy of costs submitted to the IRS for reimbursement.

There are several reasons the IRS Oversight Board has not spent all the funds allocated for Board operations, including:

- The Oversight Board strongly believes that all spending must fill a bona fide need; it does not incur unnecessary expenses because funds are available.
- The Board continues to have less than the seven private life members authorized by legislation, but budgets for a full complement of members because it is difficult to predict when additional members will be nominated and confirmed. Therefore, the Board's budget must plan for a full complement of members and all costs associated with a full slate of members.
- The Board must be able to respond effectively to unforeseen circumstances. The Board must be ready to respond to unforeseen circumstances that may require it to take additional action, such as hire outside consultants or experts, conduct more travel, or expand its survey activity to encompass emerging tax administration issues.

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The Board appreciates TIGTA's acknowledgement that the Board has taken several actions to improve financial management controls since the previous audit and that TIGTA did not find any misclassified or unreported transactions.

The Oversight Board also understands the importance of TIGTA's recommendation regarding the need to de-obligate funds. The Oversight Board believes it has the financial controls in place to identify excess funds, but agrees it needs to take additional action to de-obligate funds. Hence, the Board commits to taking a more aggressive posture in future fiscal years, and will de-obligate excess funds prior to the end of the fiscal year, carrying over into the next fiscal year only a reduced amount to cover outstanding obligations. Board procedures are being modified to address this commitment.

Unfortunately, your recommendation that the Board certify reimbursement requests before they are submitted to the IRS cannot be implemented because of limitations in the system used by the Bureau of Public Debt (BPD), as the agent of the Department of Treasury, to submit such requests to the IRS. However, to meet the spirit of TIGTA's recommendation, the Board has developed an agreement with the IRS CFO Office whereby the CFO Office will request the Oversight Board to certify all Interagency Payments and Collections (IPAC) requests prior to payment to the Treasury Department. Further, the Board will modify its Interagency Agreement so that future agreements specify this procedure and do not specify quarterly billing (see recommendation number three and corrective action below). The Oversight Board believes this action meets the intent of TIGTA's recommendation and will result in Board certification of all reimbursement requests from the Department of Treasury as reasonable and necessary.

Your audit also reported instances in which a Board member did not adhere to established travel regulations when performing official travel, and recommended that the DO Travel Handbook be distributed to all new Board members. The DO Travel Handbook referenced in the audit report is no longer maintained by DO because it does not reflect current procedures. Consequently, Board staff have developed an internal Travel Guide for IRS Oversight Board Members that summarizes key federal travel regulations and identifies procedures for members to follow when traveling on Board business. The guide has been distributed to all current private life Board members and will be provided to all members annually and to all new members when they are confirmed.

The audit also reported that one Board member made travel arrangements without the assistance of Board staff and incurred expenses for noncontracted airfare and travel agent fees and penalties totaling $420. The individual in question has reimbursed the $420 to the government.

Specific comments on your recommendations are presented below.

<u>Recommendation 1</u>
The Chairperson, IRS Oversight Board, should ensure that established policies are followed to track and analyze monthly unliquidated obligations to determine whether funding levels are on target. The procedures should be updated to include a requirement that a Board administrator document, on an annual basis, the reason why any material unliquidated funds are not released.

<u>Corrective Action</u>
The Oversight Board already has procedures to track and analyze monthly expenses and outstanding obligations and monitor the monthly use of funds. The Board has updated its procedures to require that the Board staff prepare an annual financial report to the Board Chair that

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compares planned and actual expenditures during the year and requires financial reviews at the end of July, August, and September of each fiscal year to identify and de-obligate excess funds.

Implementation Date
Procedures have been updated and a financial report for FY2009 has been developed and submitted to the Board Chair to serve as a model for future reports. A copy has also been provided to TIGTA.

Responsible Official(s)
Chairperson, IRS Oversight Board
Staff Director, IRS Oversight Board

Corrective Action Monitoring Plan
The Board Chair shall ensure he receives a financial report from the Staff Director at the conclusion of each fiscal year.

Recommendation 2
The Chairperson, IRS Oversight Board, should contact the DO to ensure the Board receives the billing information (both in advance and quarterly reports) as required. In addition, the Board should coordinate with the DO to ensure the reports requesting reimbursement from the IRS are not sent by the DO until the Board certifies the accuracy of expense information in accordance with established procedures.

Corrective Action
The Oversight Board has been informed by the Office of Financial Management (OFM) that the BPD billing system used to submit reimbursement requests to the IRS does not support the submission of a separate report to the Board, nor does BPD commit to quarterly billings. To meet the intent of the TIGTA recommendation, the Oversight Board has developed an agreement with the IRS CFO Office whereby the CFO Office will request the Oversight Board to certify all Interagency Payments and Collections (IPAC) requests prior to payment to the Treasury Department. Future Interagency agreements will contain language that specifies the IRS CFO is to request the Oversight Board to certify all IPACs received from BPD and to delete the requirement for quarterly billing, which also cannot be supported by BPD.

Implementation Date
The IRS CFO Office will request the Oversight Board to certify all IPACs received from BPD in the future. The interagency agreement will be modified starting with the FY2011 agreement.

Responsible Official(s)
Chairperson, IRS Oversight Board
Staff Director, IRS Oversight Board
IRS CFO

Corrective Action Monitoring Plan
The Staff Director shall ensure the FY2011 interagency agreement contains the modified language with respect to billing.

Recommendation 3
The Chairperson, IRS Oversight Board, should prepare detailed procedures regarding the arrangement and processing of all Board travel-related transactions.

Corrective Action
The Board has developed its own travel guide tailored to the needs of Oversight Board travelers. It has been distributed to all members and will be distributed to all new members in the future.

Implementation Date
The Guide has already been distributed to current members. New members will receive the Guide when they are confirmed.

Responsible Official(s)
Staff Director, IRS Oversight Board

Corrective Action Monitoring Plan
The action is already completed.

Recommendation 4
The Chairperson, IRS Oversight Board, should provide all Board members and staff with an annual training in Board travel procedures and official travel guidelines.

Corrective Action
The Chair will train all members and staff via an annual distribution of the Travel Guide. The Board's Administrative Support Manager will maintain currency in GovTrip policies through training provided by the Treasury Department as needed.

Implementation Date
The Travel Guide will be distributed to all Board members at the start of each fiscal year.

Responsible Official(s)
Staff Director, IRS Oversight Board

Corrective Action Monitoring Plan
The Staff Director shall ensure a Travel Guide is distributed to all Board members annually at the start of the fiscal year.

Recommendation 5
The Chairperson, IRS Oversight Board, should require that the $420 incorrectly reimbursed be repaid to the federal government.

Corrective Action
Payment has been made.

Implementation Date
Immediate

Responsible Official(s)
Chairperson, IRS Oversight Board

Corrective Action Monitoring Plan
The action is already completed.