
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



*Fiscal Year 2017 Digital Accountability and
Transparency Act Reporting Compliance*

November 7, 2017

Reference Number: 2018-10-006

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.

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HIGHLIGHTS

FISCAL YEAR 2017 DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT REPORTING COMPLIANCE

Highlights

Final Report issued on November 7, 2017

Highlights of Reference Number: 2018-10-006 to the Internal Revenue Service Chief Financial Officer, Chief of Procurement, and National Taxpayer Advocate.

IMPACT ON TAXPAYERS

The Digital Accountability and Transparency Act of 2014 (DATA Act) requires Federal agencies, including the IRS, to disclose direct expenditures and link Federal contract, loan, and grant spending information to Federal agency programs. Effective implementation of the DATA Act would provide consistent and reliable Governmentwide Federal agency spending data that are available to taxpayers at USAspending.gov.

WHY TIGTA DID THE AUDIT

To comply with the DATA Act's requirements, the Treasury Office of Inspector General and TIGTA jointly selected a random statistically valid sample of 366 transactions from the Department of the Treasury's (Treasury) DATA Act submission of Fiscal Year 2017 second quarter financial and award data and assessed (1) the completeness, timeliness, quality, and accuracy of those sample transactions and 2) the use of the Governmentwide financial data standards.

WHAT TIGTA FOUND

TIGTA determined that the IRS certified and submitted DATA Act spending data by May 2017, as required, for publication on USAspending.gov. However, TIGTA's review of 206 (of the 366 total for Treasury) procurement and grant transactions found that significant improvements are needed to ensure the completeness, accuracy, and overall quality of

the procurement and grant information submitted. Specifically, of the 202 procurement and four grant sample transactions TIGTA reviewed, 201 (over 97 percent) had one or more data elements that were inaccurate.

For the 201 sample transactions with one or more errors, the majority of data elements that had quality issues were nonfinancial. Examples include procurement and grant award attribute data, such as the funding office name, primary place of performance address, and period of contract performance. TIGTA also determined that the financial data within the IRS submission did not include the Parent Award Identification Number for any of the 80 procurement transactions TIGTA tested that had a parent award.

The data quality issues were generally attributable to inconsistencies in interpretation of DATA Act element definitions by contracting officers and grant program staff, a lack of comprehensive quality review processes designed to ensure contract and grant award attribute information is accurately entered into internal and external systems for DATA Act reporting, and incomplete agency records.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Financial Officer, in coordination with the Chief, Procurement, and the National Taxpayer Advocate, develop and implement policies and procedures that: 1) clarify the definition of DATA Act elements and associated fields, 2) specify documentation which should be maintained, and 3) provide mandatory training to all contracting officers and grant program staff. TIGTA also recommended quality assurance procedures be enhanced.

IRS management agreed with our recommendations and plans to implement policies and procedures to ensure that correct data is entered into related systems, supporting documentation is maintained, mandatory training is provided to procurement and grant staff, and a quality assurance program is implemented.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 7, 2017

MEMORANDUM FOR CHIEF FINANCIAL OFFICER
CHIEF, PROCUREMENT
NATIONAL TAXPAYER ADVOCATE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2017 Digital Accountability and
Transparency Act Reporting Compliance (Audit # 201710005)

This report presents the result of our review on Fiscal Year 2017 Digital Accountability and Transparency Act Reporting Compliance. To comply with Digital Accountability and Transparency Act of 2014 (DATA Act)¹ requirements, the Treasury Office of Inspector General and the Treasury Inspector General for Tax Administration jointly selected a random statistically valid sample of 366 transactions from the Department of the Treasury's (Treasury) DATA Act submission of Fiscal Year 2017 second quarter financial and award data and assessed (1) the completeness, timeliness, quality, and accuracy of those sample transactions and 2) the use of the Governmentwide financial data standards. The review is included in our Fiscal Year 2018 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

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

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

¹ Pub. L. No. 113-101, 128 Stat. 1146 (2014).



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Table of Contents

[Background](#).....Page 1

[Results of Review](#)Page 7

[Significant Efforts Are Needed to Improve the Quality
of IRS Spending Data](#)Page 7

[Recommendations 1 and 2:](#)Page 13

Appendices

[Appendix I – Detailed Objective, Scope, and Methodology](#)Page 14

[Appendix II – Major Contributors to This Report](#)Page 19

[Appendix III – Report Distribution List](#)Page 20

[Appendix IV – Outcome Measures](#).....Page 21

[Appendix V – Data Act Elements](#).....Page 22

[Appendix VI – Management’s Response to the Draft Report](#)Page 24



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Abbreviations

DATA Act	The Digital Accountability and Transparency Act of 2014
FFATA	Federal Funding Accountability and Transparency Act of 2006
FPDS-NG	Federal Procurement Data System–Next Generation
FY	Fiscal Year
GAO	Government Accountability Office
IRS	Internal Revenue Service
OIG	Office of Inspector General
OMB	Office of Management and Budget
SAO	Senior Accountable Official
TIGTA	Treasury Inspector General for Tax Administration



Fiscal Year 2017 Digital Accountability and Transparency Act Reporting Compliance

Background

The Digital Accountability and Transparency Act of 2014 (DATA Act) was enacted May 9, 2014,¹ and expands Section 3 of the Federal Funding Accountability and Transparency Act (FFATA) of 2006 to increase accountability and transparency in Federal spending. The DATA Act, in part, requires Federal agencies to report financial and award data in accordance with the established Governmentwide financial data standards and link Federal contract, loan, and grant spending information to Federal agency programs.

The DATA Act increases accountability and transparency in Federal spending by requiring Federal agencies to report financial and award data in accordance with established standards.

In May 2015, the Office of Management and Budget (OMB) and Department of the Treasury (Treasury) published 57 data definition standards and required Federal agencies to convey financial data in accordance with these standards for DATA Act reporting, beginning January 2017.² Agencies must report financial data on USAspending.gov in accordance with OMB/Treasury established data standards by May 2017. Once submitted, the data are made available on USAspending.gov for taxpayers and Government policymakers.

DATA Act reporting is also accomplished through direct linkage with various Federal procurement and financial assistance systems. These systems include the System for Award Management, a platform through which entities applying to receive awards from the U.S. Federal Government must register, and the Federal Procurement Data System–Next Generation (FPDS-NG), a repository of data related to Government procurement and contracts. DATA Act information is also extracted from the Award Submission Portal, a platform that allows Federal agencies to submit assistance award (grants) data.

Federal Agency information submitted to USAspending.gov in accordance with DATA Act reporting requirements is comprised of seven data files.

File A: Summary financial information on Agency Appropriation³ Accounts.

¹ Pub. L. No. 113-101, 128 Stat. 1146 (2014).

² On May 8, 2015, the OMB and Treasury issued final data definition standards guidance. Additional data definition standards related to Federal award reporting were finalized on August 31, 2015, to improve comparability of other data reported in connection with the FFATA's Fiscal Year 2006 and 2008 requirements. Section 2(b) of the FFATA requires reporting of Federal award-level data to include award title, award amount, recipient, and purpose of the award, among other data elements.

³ Appropriation is a provision of law authorizing the expenditure of funds for a given purpose (Internal Revenue Manual 1.34.1).



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

File B: Summary financial information categorized by Object Class⁴ and Program Activity.⁵

File C: Transaction-level financial information⁶ on agency procurements and grants respectively.

Files D1 and D2: Transaction-level awardee attribute information⁷ on agency procurements and grants, respectively. It is important to note that procurements (D1) and grants (D2) have different attribute information for specific data elements required for DATA Act reporting.

File E: Additional transaction-level awardee attribute information on agency procurements and grants.

File F: Transaction-level subawardee attribute information on agency procurements and grants.

The IRS submitted DATA Act spending information by May 2017, as required, for publication on USAspending.gov. The IRS submits its information to the Treasury Information Executive Repository⁸ for processing by the Treasury. The Treasury then submits the consolidated information for all Treasury bureaus and offices, including the IRS, for publication on USAspending.gov.

The IRS's DATA Act Submission Assurance Statement for the second quarter of Fiscal Year (FY)⁹ 2017 was submitted by the IRS's designated Senior Accountable Official (SAO), the Associate Chief Financial Officer for Financial Management. The IRS attested that its internal controls are operating effectively with regards to its spending data, agency source systems, and the DATA Act submission files (File A–Appropriation Account, File B–Object Class and Program Activity, File C–Award Financial, and File D2–Financial Assistance) with the exception of approximately 1,500 discrepancies. The IRS reported that these discrepancies primarily relate to missing Parent Award Identification Number information¹⁰ and timing differences with the FPDS-NG.

⁴ Classification of expense by type. For example, personnel compensation and travel and transportation.

⁵ Classification of expense by program. For example, profiling and education.

⁶ Financial information about specific awards. For example, award funding source.

⁷ Attribute information about specific awards. For example, awardee name.

⁸ The Treasury Information Executive Repository is a database containing a record of all month-end standard general ledger account balances at the lowest level of attribute detail for each Treasury Account Symbol. The Treasury Account Symbol is an identification code assigned by the Treasury, in collaboration with OMB and the owner agency, to an individual appropriation, receipt, or other fund account. The Treasury Information Executive Repository is owned, operated, and maintained by the Department of the Treasury.

⁹ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

¹⁰ Parent Award Identification Number – For procurements, if the award is a delivery order or task order under a parent contract, the identifier of the parent award.



Fiscal Year 2017 Digital Accountability and Transparency Act Reporting Compliance

One of the key components of the DATA Act is the 57 data element standardized definitions. The data elements include, for example, contract award description and total amount of the award. The DATA Act technical schema, developed by the Treasury, details the specifications for the format, structure, and transmission of the required data.

To aid agency implementation of the DATA Act's requirements, the OMB provided guidance to agencies through a number of policy documents.¹¹ For example, OMB guidance required all Federal agencies to link agency financial systems with award systems by the use of specified unique prime Award Identification Numbers for financial assistance awards (grants) and contracts.¹² Agencies were required to have the Award Identification Number linkage for all modifications (amendments) to awards made after January 1, 2017, for reporting to USAspending.gov (or its successor system). The Award Identification Number (Financial Assistance Instrument Identifiers for grants and Procurement Instrument Identifiers for procurements) serves as the key to connect data across award systems and financial systems. The purpose of this linkage is to facilitate the timely reporting of award-level financial data and to reduce reporting errors.

The IRS uses the following internal and external electronic systems to support its DATA Act reporting.

- **Integrated Financial System** – this system contains the IRS's core financial systems, including expenditure controls, accounts payable, accounts receivable, general ledger, and budget formulation. The system includes a managerial cost accounting capability that enables the IRS to make informed and timely performance-based business and budgetary decisions.
- **Integrated Procurement System** – this system is used by the IRS to track obligations, create solicitations and awards, handle vendor files, and generate reports.
- **Grant Solutions** – The IRS uses the Department of Health and Human Services Grant Solutions system for the financial administration and detail-level accounting of its grant programs to disburse payments to individual grantees and record those transactions for the Low-Income Taxpayer Clinic grant program.
- **Grant Program Excel Workbooks** – The IRS uses these Excel workbooks to record financial administration and detail-level accounting for the Tax Counseling for the Elderly and Voluntary Income Tax Assistance grant programs.
- **Payment Management System** – The IRS uses the Department of Health and Human Services Division of Payment Management database to facilitate payments to grantees

¹¹ OMB, Memorandum M-15-12, *Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable* (May 2015) and OMB, Controller Alert, *DATA Act Implementation and Offices for Financial Assistance Awards* (Dec. 2015).

¹² The Award Identification Number is the unique identifier of the specific award reported.



Fiscal Year 2017 Digital Accountability and Transparency Act Reporting Compliance

and maintain grantee financial reports for the IRS Low-Income Taxpayer Clinics, Tax Counseling for the Elderly, and Voluntary Income Tax Assistance grant programs.

In our prior Treasury Inspector General for Tax Administration (TIGTA) audit report, we identified areas that required additional attention. Specifically, the IRS had not clearly identified the source for 18 of the required 57 data elements or documented how the 57 standardized reporting data elements are used in its business processes, as required.¹³ In addition, the IRS had not finalized the accounting procedures needed to support the posting of transaction-level grant program information in its financial system as required by the DATA Act. Further, the IRS Office of Procurement and grant program offices manually entered data for 10 elements related to procurements required for DATA Act reporting into either the FPDS-NG (procurements) or Award Submission Portal (grants) for every contract award and contract modification. Finally, the IRS had not determined whether the Non-Federal Funding Amount DATA Act element would require it to report grantee-matching contributions relating to its various grant programs or how this reporting would be accomplished, if required.¹⁴ TIGTA recommended that the Chief Financial Officer update the data source inventory to include all required information and clearly document the data source of all required data elements. In addition, the Chief Financial Officer should finalize accounting procedures and associated controls to support the posting of transaction-level financial information for IRS grant programs. Finally, the Chief Procurement Officer should pursue methods of automating the capture of data for the 10 procurement-related elements required for DATA Act reporting. The IRS generally agreed with our recommendations.

Audit Requirements

The DATA Act requires a series of oversight reports by Federal Agency Offices of Inspectors General (OIG) in consultation with the Government Accountability Office (GAO). Specifically, OIGs are required to review: 1) a statistically valid sampling of the spending data submitted by the Federal agency and assess the completeness, timeliness, quality, and accuracy of the data sampled and 2) the implementation and use of the Governmentwide financial data standards. This report is the first of the three mandatory OIG audits required by the DATA Act. The scope of this audit is the FY 2017 second quarter financial and award data (procurements and grants) for IRS as part of the Treasury publication on USAspending.gov.

Under the DATA Act, the first OIG reports evaluating the completeness, timeliness, quality, and accuracy of agency spending data submissions were due to Congress in November 2016. However, agencies were not required to submit spending data in compliance with the DATA Act

¹³ TIGTA, Ref. No. 2017-10-018, *Status of Digital Accountability and Transparency Act Implementation Efforts* p.3 (March 2017).

¹⁴ The Non-Federal Funding Amount, for financial assistance (grants), is the amount of the award funded by non-Federal source(s), in dollars. Program Income (as defined in 2 CFR Section 200.80) is not included until such time that Program Income is generated and credited to the agreement.



Fiscal Year 2017 Digital Accountability and Transparency Act Reporting Compliance

until May 2017. As a result, the OIGs did not report in November 2016 on the spending data submitted under the DATA Act. On December 22, 2015, the Council of the Inspectors General on Integrity and Efficiency issued a letter to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform outlining its strategy for addressing the OIG reporting date anomaly and delayed issuance of the mandated audit reports. The OIGs will provide Congress with their first required reports in November 2017, a one-year delay from the statutory due date, with two subsequent reports each following on a two-year cycle.

Audit Coordination

Because there is only one submission for publication on USAspending.gov for all Treasury bureaus and offices, including the IRS, the TIGTA and the Treasury OIG agreed to jointly pull a random statistically valid sample of 366 transactions from the Department of the Treasury's DATA Act submission of FY 2017 second quarter financial and award data. For the Department of the Treasury DATA Act spending data submission, the population consisted of 7,033 transactions. These transactions are divided into two subpopulations: 1) the IRS and 2) all other Treasury bureaus and offices. The IRS subpopulation consists of 3,956 transactions, and the subpopulation for all other Treasury bureaus and offices consists of 3,077 transactions.

TIGTA reviewed 206 IRS sample transactions. TIGTA's sample contained 202 procurement transactions and four grant transactions, associated with the IRS Low-Income Taxpayer Clinic grant program administered by the Taxpayer Advocate Service. The Treasury OIG reviewed the remaining 160 procurement sample transactions for the other Treasury bureaus and offices. The Treasury OIG also assessed the overall completeness, timeliness, quality, and accuracy of summary financial data reported for all Treasury bureaus and offices in the second quarter of FY 2017 (Files A and B). Additionally, the Treasury OIG assessed the reconciliation process between the data in Files B and C for all Treasury bureaus and offices. Details on the results of this substantive testing will be reported separately by the Treasury OIG. Files E and F of the DATA Act model schema contain additional awardee attribute information extracted from the System for Award Management and the FFATA Subaward Reporting System.¹⁵ The responsibility for reporting this information is that of the prime awardee, not the agency. As such, we did not assess the completeness, accuracy, timeliness, and quality of the data extracted from the System for Award Management and the FFATA Subaward Reporting System via the DATA Act broker. The broker is an information system that takes in Federal spending data from agency award and financial systems, validates it, and standardizes it against the common DATA Act model.

¹⁵ The FFATA Subaward Reporting System is the reporting tool Federal prime awardees (*i.e.*, prime contractors and prime grant recipients) use to capture and report subaward and executive compensation data regarding their first-tier subawards to meet the FFATA reporting requirements.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

As part of our coordination with the Treasury OIG, we agreed to assist if any material differences were identified in the Treasury OIG's reconciliation and review of Treasury (including IRS) files. The Treasury OIG did not identify any IRS differences and, as a result, did not contact us regarding the resolution of any differences of this type. Consequently, TIGTA's focus was on reviewing the financial (File C) and award (procurement (File D1) and grant (File D2)) information included in the IRS submission to the Treasury and assessing it for accuracy, completeness, and timeliness. TIGTA and the Treasury OIG maintained close coordination during the conduct of our separate DATA Act audits. This report provides the TIGTA's transaction testing error rate results that were within the IRS control and does not include any data errors that were due to the DATA Act broker issues.

This review was performed at the Headquarters offices of the Office of the Chief Financial Officer, the Office of Procurement, and the Taxpayer Advocate Service located in Washington, D.C.; at Office of Procurement field offices located in Oakland, California; Atlanta, Georgia; Lanham Maryland; New York City, New York; Dallas, Texas; and Vienna, Virginia; at the field office of the Taxpayer Advocate Service located in Laguna Nigel, California; and at the Wage and Investment Division field office located in Atlanta, Georgia. This review was performed during the period April through October 2017. 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.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Results of Review

Significant Efforts Are Needed to Improve the Quality of IRS Spending Data

While the IRS submitted DATA Act spending data by May 2017, as required, for publication on USAspending.gov, the overall quality of the spending data, and specifically the awards (procurement and grant) attribute data, need significant improvement. The initial submission and certification of agency spending data to USAspending.gov under the DATA Act was the first time that Federal agencies had to provide award (procurement and grant) attribute data, in conjunction with associated financial data, in their financial reporting under the DATA Act (which expanded the FFATA reporting requirements).

The OMB estimated a 50 percent error rate in the spending data Federal agencies were required to submit. The IRS spending data in our sample contained a 97.6 percent error rate. The majority of the data elements that had quality issues were nonfinancial. Examples include procurement and grant award attribute data (File D) such as the funding office name, primary place of performance address, and period of contract performance. We determined that the financial data (File C) within the IRS submission did not include the Parent Award Identification Number for any of the 80 procurement transactions we tested that had a parent award. Without effective controls over award attribute data quality, the IRS will be unable to ensure that spending data it reports on USAspending.gov are consistent and reliable.

Nearly all sample transactions tested had one or more data elements that were inaccurate

TIGTA's review of 206 sample transactions found that significant improvements are needed to ensure the completeness, accuracy, and overall quality of the financial and award attribute data submitted. Specifically, of the 206 procurement and grant sample transactions we reviewed, 201 (over 97 percent) transactions had one or more data elements that were inaccurate, including 43 transactions that were incomplete.

The 201 sample transactions with data quality¹⁶ issues included inaccurate transactions, for which the data element information did not match the IRS records or the correct supporting documentation could not be identified or located, and incomplete transactions, for which the transactions did not contain information for all of the data elements required by the DATA Act. These incomplete transactions were missing award attribute information such as the contractor

¹⁶ We identified the information as lacking overall quality because we believe the significant error rate we identified compromises the usefulness of the information to end users.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

name, award date, and award total amount. The Office of Procurement informed us that this generally occurred because contracting officers did not report contract award action reports in the FPDS-NG within the required three-day time frame in accordance with the Federal Acquisition Regulation.¹⁷

The data quality issues we identified were generally attributable to inconsistencies in the interpretation of DATA Act element definitions by contracting officers and grant program staff, the lack of comprehensive quality review processes designed to ensure that contract and grant award attribute information is accurately entered into internal and external financial systems for DATA Act reporting, and incomplete agency records.

Data Inaccuracies

The Treasury DATA Act spending data submission population consists of 7,033 transactions. These transactions are divided into two subpopulations: the IRS and all other Treasury bureaus and offices. The IRS subpopulation consists of 3,956 transactions, and the subpopulation for all other Treasury bureaus and offices consists of 3,077 transactions. The evaluation results for the IRS sample transactions are summarized in Figure 1.

Figure 1: Evaluation of IRS Transactions¹⁸

Strata	Population	Transactions				
		Examined	Inaccurate	Untimely	Incomplete	Noncompliant
IRS Procurements	3,792	202	197	0	39	197
IRS Grants	164	4	4	0	4	4
IRS Total	3,956	206	201	0	43	201

Source: TIGTA analysis.

Sample Evaluation Criteria

According to the OMB:

- Completeness is measured in two ways: 1) that all transactions that should have been recorded are recorded in the proper reporting period and 2) as the percentage of transactions containing all applicable data elements required by the DATA Act.

¹⁷ Federal Acquisition Regulation Part 4.6, *Contract Reporting*.

¹⁸ “Inaccurate” includes the 43 “incomplete” transactions.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

- Timeliness is measured as the percentage of transactions reported within 30 days of quarter end.
- Accuracy is measured as the percentage of transactions that are complete and agree with the systems of record or other authoritative sources.
- Quality is defined as a combination of utility, objectivity, and integrity. Utility refers to the usefulness of the information to the intended users.

Projections for IRS Transactions

Figure 2 summarizes the projected noncompliance rate and number of noncompliant transactions for the population of 3,956 IRS transactions. The effective sample size for these calculations was 206 transactions, consisting of 202 procurements and four grants.

Figure 2: Projections for IRS Transactions Using a 95 Percent Confidence Level

Evaluation Category	Percentage Noncompliant	95% Confidence Limit	Projected Number Noncompliant	Confidence Limit
Inaccurate	97.6%	95.6% – 99.6%	3,862	3,783 – 3,941
Untimely	0.0%	0.0% – 1.7%	0	0 – 68
Incomplete	22.7%	17.6% – 27.7%	896	695 – 1097
All	97.6%	95.6% – 99.6%	3,862	3,783 – 3,941

Source: TIGTA analysis.

Inaccuracy in the IRS spending data is estimated as 97.6 percent. We are 95 percent confident that the percentage of inaccurate transactions is between 95.6 percent and 99.6 percent and that the number of inaccurate transactions is between 3,783 and 3,941.

No untimely transactions were found in the IRS sample. We are 95 percent confident that the percentage of untimely transactions in the IRS spending data is below 1.7 percent and that the number of untimely transactions is 68 or fewer.

Incomplete transactions in the IRS population is estimated as 22.7 percent. We are 95 percent confident that the percentage of incomplete transactions in the IRS spending data is between 17.6 percent and 27.7 percent and that the number of incomplete transactions is between 695 and 1097.

We determined that the following DATA Act elements had the largest number of data quality issues (data element information did not match the IRS records or the correct supporting documentation could not be identified) in the sample transactions we tested for which the element was complete:



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

1. Period of Performance Start Date

This data element is applicable to both procurement and grant transactions. Our review indicated 123 inaccuracies, all of which relate to procurements.

Definition: The date on which, for the award referred to by the action being reported, awardee effort begins or the award is otherwise effective.

2. Funding Office Name

This data element is applicable to both procurement and grant transactions. Our review indicated 85 inaccuracies, all of which relate to procurements.

Definition: Name of the organization that provided the preponderance of the funds obligated by this transaction.

3. Funding Office Code

This data element is applicable to both procurement and grant transactions. Our review indicated 85 inaccuracies, all of which relate to procurements.

Definition: Identifier of the organization that provided the preponderance of the funds obligated by this transaction.

4. Business Type

This data element is applicable to both procurement and grant transactions. Our review indicated 54 inaccuracies, all of which relate to procurements. For procurements, we limited our evaluation of this element to a comparison of the information reported in the submission to the information in the System for Award Management.

Definition: A collection of indicators of different types of recipients based on socioeconomic status and organization/business type.

5. Primary Place of Performance Congressional District

This data element is applicable to both procurement and grant transactions. Our review indicated 48 inaccuracies, of which 44 relate to procurements and four relate to grants.

Definition: U.S. Congressional district where the predominant performance of the award will be accomplished.

6. Primary Place of Performance Address

This data element is applicable to both procurement and grant transactions. Our review indicated 33 inaccuracies, all of which relate to procurements.

Definition: U.S. address identifying where the predominant performance of the award will be accomplished.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Controls were not effective in ensuring the quality of the IRS initial DATA Act spending data submission

Internal Controls – We found that the IRS submitted and certified DATA Act spending data by May 2017, as required, for publication on USAspending.gov.¹⁹ However, our review of a random sample of 206 procurement and grant transactions for the IRS found that significant improvements are needed to address the quality of the spending data submitted. Specifically, of the 206 sample transactions we reviewed, 201 (over 97 percent) had one or more data elements that were incomplete or inaccurate. The majority of the data quality issues we identified were associated with IRS award (procurement and grant) attribute data. Without effective controls over award attribute data quality, the IRS will be unable to ensure that spending data it reports on USAspending.gov are consistent and reliable.

The IRS's DATA Act Submission Assurance Statement for the second quarter of FY 2017 was certified and submitted by the IRS's designated SAO. The IRS attested that its internal controls are operating effectively with regards to its spending data, agency source systems, and the DATA Act submission files (File A–Appropriation Account, File B–Object Class, File C–Award Financial, and File D2–Financial Assistance), with the exception of a number of discrepancies. The IRS did not certify to the accuracy, reliability, and validity of File D1, which includes attribute information for its procurement awards. The award attribute information provided in File D1 includes data elements such as the Award Identification Number, the Federal contract action obligation amount, and the period of performance dates. The Treasury SAO provided an assurance statement, certifying the completeness, timeliness, and accuracy of agency data, for all Treasury bureaus and offices (including the IRS) for File D1.

However, we determined that the IRS does not have effective controls to ensure that required DATA Act information is completely and accurately reported. Specifically, we found that the IRS quality assurance procedures to ensure the accuracy of procurement and grant attribute information reported in the FPDS-NG and Award Submission Portal were inadequate. For example, the IRS did not take effective steps to 1) ensure that procurement and grant personnel responsible for entering data into internal and external reporting systems clearly understood the definitions of the 57 DATA Act elements and the information required in the related data fields within those systems and (2) ensure that procurement and grant personnel understood the specific documentation that should be maintained to support their data entries in grant and contract files. Further, the IRS lacks an effective control to ensure that required DATA Act award attribute information is timely reported in the FPDS-NG by contracting officers in accordance with the Federal Acquisition Regulation requirements.²⁰

¹⁹ Pursuant to Federal Acquisition Regulation Part 4.604 and OMB guidance, Improving Federal Procurement Data Quality – Guidance for Annual Verification and Validation (Washington, D.C.; May 31, 2011), Agency Senior Procurement Executives are required to certify the completeness, timeliness, and accuracy of agency data in FPDS-NG.

²⁰ Federal Acquisition Regulation Part 4.6.



Fiscal Year 2017 Digital Accountability and Transparency Act Reporting Compliance

IRS Office of Procurement officials told us that during March 2018 it plans to add a new utility within the Procurement for Public Sector function to automatically update the FPDS-NG with contract action reports.²¹ This should address the issue we identified in our review in which obligation amounts in the Integrated Financial System were not supported by required procurement award information in the Integrated Procurement System due to the submission of contract action reports into the FPDS-NG after the three-day required time frame. However, the Chief Procurement Officer noted that the attrition of acquisition staff, and the inability to fill vacant positions as a result of the hiring freeze, has had a significant impact on the Office of Procurement's ability to complete required functions. While the number of contract actions and related dollars in obligations has increased, contracting officer staffing has significantly declined.

Financial Reporting Controls – Our discussions with the IRS's financial statement auditors did not identify financial reporting control weaknesses that would materially affect the IRS's ability to timely and accurately report award and financial information. Specifically, in the GAO's audits of the IRS's financial statements for FYs 2015 and 2016, the GAO rendered an unmodified opinion on the IRS's financial statements.²² The GAO found no reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements that it tested. However, the GAO did report a significant deficiency in internal controls over the IRS's financial reporting systems. The significant deficiency over financial reporting systems related to general controls relied upon by the administrative and custodial accounting systems, specifically the administrative accounting systems (the Integrated Financial System and the Integrated Procurement System). The GAO reported issues with database controls and one segregation of duties issue with the Integrated Financial System application. With the exception of the issues discussed in our audit report, the GAO did not identify any other material weaknesses or significant deficiencies in internal control over financial reporting. At the time of our report issuance, the GAO provided that its fieldwork for its FY 2017 financial statement audit of the IRS was ongoing and subject to change. However, the GAO indicated that it was not anticipating changes to its opinion on IRS internal controls.

Governmentwide financial data standards implementation

We determined that the IRS was substantially compliant in implementing the Governmentwide financial data standards, with two exceptions. We found that the financial data (File C) within the IRS submission did not include the Parent Award Identification Number for any of the 80 sample procurement transactions we tested that had a parent award. In addition, the IRS has not determined how it will collect and report grantee matching cash contributions under the Non-Federal Funding Amount data element.

²¹ Procurement for Public Sector will replace the current Integrated Procurement System.

²² GAO, GAO-17-140, *Financial Audit: IRS's FYs 2016 and 2015 Financial Statements* (Washington, D.C.; Nov. 9, 2016).



Fiscal Year 2017 Digital Accountability and Transparency Act Reporting Compliance

The IRS Chief Financial Officer reported in the Treasury Joint Audit Management Enterprise System audit tracking database that it has created a comprehensive data source inventory that clearly documents the 57 DATA Act data elements. However, we noted that the IRS has not determined how it will collect and report grantee matching cash contributions under the Non-Federal Funding Amount data element. The Chief Financial Officer told us that when the Chief Financial Officer and grant program offices reviewed the reporting requirements on non-Federal funding matches for IRS grant programs under the DATA Act, they noted that this is an optional reporting element under the DATA Act and, due to funding issue considerations and the complexities involved for any business process changes, they have decided not to invest in developing a methodology to address an optional element.

Recommendations

The Chief Financial Officer, in coordination with the Chief, Procurement, and the National Taxpayer Advocate, should:

Recommendation 1: Develop and implement policies and procedures that: 1) clarify the definition of DATA Act elements and associated data fields in the Procurement for Public Sector function (successor system to the IRS Integrated Procurement System), the Award Submission Portal, and the FPDS-NG, 2) specify documentation that should be maintained in support of these elements in grant and contract files, and 3) provide mandatory training to all contracting officers and grant program staff to ensure understanding.

Management's Response

IRS management agreed with our recommendation. The Chief Financial Officer, working with the Chief, Procurement, and the National Taxpayer Advocate, will develop and implement policies and procedures to ensure that DATA Act elements are correctly entered into the supporting system and appropriate documentation is maintained. Training on manually entered DATA Act elements will also be provided.

Recommendation 2: Enhance quality assurance procedures to improve the accuracy of the Data Act procurement and grant attribute information and provide additional assurance that contract and grant files contain current and appropriate documentation.

Management's Response

IRS management agreed with our recommendation. The Chief Financial Officer, working with the Chief, Procurement, and the National Taxpayer Advocate, will develop and document a quality assurance review process addressing procurement and grant attribute information to ensure that contract and grant files contain appropriate documentation.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Appendix I

Detailed Objectives, Scope, and Methodology

To comply with DATA Act¹ requirements, the Treasury OIG and TIGTA jointly selected a random statistically valid sample of 366 transactions from the Treasury's DATA Act submission of FY² 2017 second quarter financial and award data and assessed the (1) completeness, timeliness, quality, and accuracy of those sample transactions and 2) the use of the Governmentwide financial data standards. To accomplish our objective, we:

- I. Obtained an understanding of the regulatory criteria related to the reporting of financial and award data under the DATA Act and the systems, processes, and internal controls the IRS put in place to facilitate this reporting.
 - A. Gained and documented an understanding of the IRS systems, processes, and internal controls put in place to facilitate reporting financial and award data in accordance with the requirements of the DATA Act.
 - B. Analyzed the results of the TIGTA readiness review and analyzed actions taken in response to the recommendations.
 - C. Gained an understanding of applicable laws, legislation, directives, and any other regulatory criteria (guidance) related to the IRS's responsibilities to report financial and award information and the IRS financial award information environment.
 - D. Consulted the TIGTA contract statistician and discuss the proposed sampling approach.
- II. Assessed the IRS systems, processes, and internal controls in place over data management and reporting under the DATA Act.
 - A. Performed an assessment of internal controls to determine the nature, timing, and extent of testing.
 - B. Documented IRS-specific control objectives, risks, and related controls to mitigate those risks.
 - C. Determined the extent to which IRS financial and award systems can be relied on as authoritative sources for the information reported in accordance with the DATA Act.

¹ Pub. L. No. 113-101, 128 Stat. 1146 (2014).

² Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

1. Assessed whether the internal controls over the financial and award systems are properly designed, implemented, and operating effectively.
 2. Evaluated the extent to which reliance can be placed on internal control and substantive testing performed by the GAO audits of the IRS's financial statements.
 3. Determined the extent of internal control testing performed by agency management, per internal control and risk management strategies outlined in OMB Circular No. A-123.³
 4. Determined whether the design, implementation, and operating effectiveness of the processes, systems, and controls the IRS has in place over the data management process reasonably ensures that data submitted are complete, accurate, and timely.
 5. Determined whether the IRS SAO, or a designee, has provided quarterly assurance that the IRS's internal controls support the reliability and validity of the IRS's summary-level and award-level data reported for publication on USAspending.gov.
 - a) Obtained, from the IRS SAO, the IRS's certification, validation, reconciliation reports, and any other relevant supporting documentation used in providing the quarterly assurance.
 - b) Reviewed certification supporting documentation to determine whether it identifies any deficiencies in internal controls or other limitations that would prevent the SAO from certifying the data.
- III. Reviewed a statistically valid sample of certified spending data submitted by the IRS.
- A. Selected a random statistically valid sample of certified spending data from the reportable award-level transactions included in the IRS's certified data submission for File C.
 - B. Evaluated award-level linkages (Files C, D1, and D2) for each sample item selected from File C.
 1. Evaluated whether the procurement awards in the sample selected from File C are included in File D1 by matching the Procurement Instrument Identifier Numbers.
 2. Evaluated whether the financial assistance awards in the sample selected from File C match the Financial Assistance Identifier Numbers contained in File D2.

³ OMB, OMB Circular No. A-123 (Revised), *Management's Responsibility for Internal Control* (Dec. 2004).



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

- C. Evaluated the completeness, accuracy, timeliness, and quality of the award-level transactions sampled.
 - 1. Assessed the completeness and proper use of data standards of the award-level transaction sample data:
 - a) Evaluated whether each transaction sampled contains all required data elements and whether this information is presented in accordance with required standard.
 - b) Evaluated the IRS's process for reviewing and mapping the 57 data standards and associated definitions.
 - 2. Assessed the accuracy of the award-level transaction sample data.
 - a) For each transaction from the sample that contains Federal award-level data, matched this information to the IRS's underlying records, including procurement requisitions or grant applications, contract and grant award documents, contract modifications, and other associated supporting documentation.
 - b) For each transaction from the sample that contains Federal nonfinancial award data elements, matched this information to the IRS's underlying records and the System for Award Management (for the Business Type data element).
 - c) For each transaction from the sample that contains Federal financial award data elements, including awardee data, matched this information to the IRS's underlying records.
 - d) For each transaction from the sample that contains official entity information, specifically, the legal entity name and the physical address, matched this information to the information from the IRS's underlying records.
 - 3. Assessed the timeliness of the award-level transaction sample data.
- D. Assessed the overall quality of the data submitted to the Treasury for publication on USAspending.gov.

Objectives and steps pertaining to Files A and B were eliminated because the Treasury OIG performed those steps. Specifically, the Treasury OIG assessed the overall completeness, timeliness, quality, and accuracy of summary financial data reported for all Treasury bureaus and offices in the second quarter of FY 2017 (Files A and B). Additionally, the Treasury OIG assessed the reconciliation process between the data in Files B and C for all Treasury bureaus and offices.



Fiscal Year 2017 Digital Accountability and Transparency Act Reporting Compliance

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 that the following internal controls were relevant to our audit: the IRS's process for validating and submitting financial and award data and ensuring data quality. We evaluated these controls by interviewing officials in the Office of the Chief Financial Officer, the Office of Procurement, the Taxpayer Advocate Service, and the Wage and Investment Division and reviewing the IRS data validation and quality assurance procedures.

Sampling Methodology

In coordination with the Treasury OIG, we selected a random statistically valid sample of certified spending data submitted for publication on USAspending.gov, specifically from the reportable award-level transactions included in the Treasury's certified Fiscal Year 2017 second quarter financial and award data submission for File C. We met with TIGTA's contract statistician to discuss this audit and the associated sampling plan.

The following criteria were used to select the sample:

- **Population Size** – the number of detailed award transactions included in the Treasury's quarterly certified data submission were determined by adding the total number of detail award transactions in submission File C, identified as 7033.
- **Confidence Level** – the percentage of all possible samples that can be expected to include the true population parameter; set at 95 percent.
- **Expected Error Rate** – the estimated number of errors in the population to be sampled, set at 50 percent.
- **Sample Precision** – the expected difference between the true population parameter and a sample estimate of that parameter; set at ± 5 percent.
- **Sample Size** – the number of transactions to be selected for this review is 366 transactions. The sample size is based on a 95 percent confidence level, an initial-year expected error rate of 50 percent, and a desired sampling precision of ± 5 percent.
- **Review Methodology** – the TIGTA will review those transactions applicable to the IRS; the Treasury OIG will review transactions applicable to all other Treasury bureaus and offices.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Data Reliability

We performed validation tests to ensure the reliability of the certified FY 2017 Second Quarter Treasury Submission File C (IRS transactions) data we extracted. This testing included evaluating whether all transactions reported contained all expected fields (including Award Identification Number), had values within expected ranges, and had funding codes applicable to the IRS. We also evaluated award-level linkages between Files C and Files D1 and D2. Overall, we determined that the extracted data were reliable for the purposes of our substantive testing, which focused on an in-depth analysis of the accuracy of selected sample cases through review of source documentation.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Appendix II

Major Contributors to This Report

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*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Director, Office of Audit Coordination



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

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 Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential: 3,862 of the 3,956 IRS transactions included in the Treasury’s FY 2017 second quarter financial and award data submission contain inaccurate or incomplete transaction information associated with one or more required transaction data elements (see page 7).

Methodology Used to Measure the Reported Benefit:

The Treasury DATA Act spending data submitted in May 2017 consisted of 7,033 transactions. These transactions included the IRS and the all other Treasury bureaus and offices. The IRS subpopulation consisted of 3,956 transactions, and the subpopulation for all other Treasury bureaus and offices consisted of 3,077 transactions. Based on the formula provided in the Data Act guidance,¹ we pulled a sample of 366 transactions and stratified the sample into two groups, one for the IRS and the other for all other Treasury bureaus and offices. The IRS sample consisted of 206 transactions. We found that 197 of the 206 transactions were inaccurate. Using a 95 percent confidence level, these transactions projected against the whole population of 3,956 transactions equated to 3,862 transactions that were inaccurate.

¹ Treasury OIG, OIG-CA-17-012, *Inspectors General Guide to Compliance Under the DATA Act* (Feb. 2017), developed by the Council of the Inspectors General on Integrity and Efficiency’s Federal Audit Executive Council DATA Act Working Group in consultation with the GAO.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Appendix V

DATA Act Elements

57 Data Elements
1. Appropriations Account
2. Budget Authority Appropriated
3. Object Class
4. Obligation
5. Other Budgetary Resources
6. Outlay
7. Program Activity
8. Treasury Account Symbol (excluding subaccount)
9. Unobligated Balance
10. Action Date
11. Action Type
12. Award Description
13. Award Identification Number
14. Award Modification/Amendment Number
15. Award Type
16. Business Type
17. Catalog of Federal Domestic Assistance Number
18. Catalog of Federal Domestic Assistance Title
19. North American Industrial Classification System Code
20. North American Industrial Classification System Description
21. Ordering Period End Date
22. Parent Award Identification Number
23. Period of Performance Current End Date
24. Period of Performance Potential End Date
25. Period of Performance Start Date
26. Primary Place of Performance Address
27. Primary Place of Performance Congressional District



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

57 Data Elements
28. Primary Place of Performance Country Code
29. Primary Place of Performance Country Name
30. Record Type
31. Amount of Award
32. Current Total Value of Award
33. Federal Action Obligation
34. Non-Federal Funding Amount
35. Potential Total Value of Award
36. Awardee/Recipient Legal Entity Name
37. Awardee Recipient Unique Identifier
38. Highly Compensated Office Name
39. Highly Compensated Officer Total Compensation
40. Legal Entity Address
41. Legal Entity Congressional District
42. Legal Entity Country Code
43. Legal Entity Country Name
44. Ultimate Parent Legal Entity Name
45. Ultimate Parent Unique Identifier
46. Awarding Agency Code
47. Awarding Agency Name
48. Awarding Office Code
49. Awarding Office Name
50. Awarding Sub Tier Agency Code
51. Awarding Sub Tier Agency Name
52. Funding Agency Code
53. Funding Agency Name
54. Funding Office Code
55. Funding Office Name
56. Funding Sub Tier Agency Code
57. Funding Sub Tier Agency Name

Source: Department of the Treasury DATA Act Data Standards.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Appendix VI

Management's Response to the Draft Report



CHIEF FINANCIAL OFFICER

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

November 3, 2017

MEMORANDUM FOR GREGORY D. KUTZ
ASSISTANT INSPECTOR GENERAL FOR AUDIT
(MANAGEMENT SERVICES AND EXEMPT ORGANIZATIONS)

FROM:

for Ursula S. Gillis
Chief Financial Officer 

SUBJECT:

Discussion Draft Audit Report – Fiscal Year 2017 Digital
Accountability and Transparency Act Reporting Compliance
(Audit # 201710005)

Thank you for the opportunity to respond to the draft report from your review of the IRS's implementation of the Digital Accountability and Transparency Act (DATA Act) of 2014 (P.L. 113-101). We agree with the recommendations listed in the draft report and will implement the corrective actions detailed in the attachment.

The governmentwide implementation of this Act focused primarily on linking and reconciling information between financial and award systems (e.g., procurement and grants systems) to improve the integrity and transparency of the financial award data. We retain a high degree of integrity and confidence in IRS's publicly displayed financial information, with IRS having received 17 consecutive unmodified audit opinions.

In the initial year of implementation, and per OMB and Treasury guidance, the IRS focused primarily on linking data between its financial and award systems that historically were not integrated. The IRS focused its efforts on ensuring financial information was accurate and complete across all files required to be submitted under the DATA Act.

You reviewed 57 DATA Act elements and reported that the IRS was substantially compliant in implementing the governmentwide financial data standards with two exceptions, Parent Award ID and Non-Federal Matching Grants (optional field), that were not implemented fully in the IRS's financial system. The IRS takes its compliance requirements seriously and is committed to ensuring our DATA Act submissions comply fully. We determined during implementation that it was not cost effective to modify our legacy Integrated Procurement System interface for the Parent Award ID, as the system



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

2

was being retired at the end of FY 2017. We implemented the Procurement for Public Sector system in October 2017, and the Parent Award ID now is captured in the Integrated Financial System. We also are working on a methodology that will enable us to pull in non-federal matching grants information.

Although the IRS agrees with the overall findings and recommendations, we want to point out that the error rate methodology used overstates transaction inaccuracy by weighting all data elements equally. If even one data element out of the 57 included for every transaction had a discrepancy, then the entire transaction was considered inaccurate. Therefore, the methodology understates the overall quality of the data.

If you have any questions, please contact William H. Maglin II, Associate Chief Financial Officer for Financial Management, at 202-803-9730.

Attachment

cc: Legislative Affairs



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

Attachment

RECOMMENDATION 1

The Chief Financial Officer, in coordination with the Chief Procurement Officer and the National Taxpayer Advocate should develop and implement policies and procedures that: 1) clarify the definition of DATA Act elements and associated data fields in the IRS IPS and the FPDS-NG, 2) specify documentation which should be maintained in support of these elements in grant and contract files, and 3) provide mandatory training to all contracting officers and grant program staff to ensure understanding.

CORRECTIVE ACTION

The IRS agrees with this recommendation. The Chief Financial Officer, working with the Chief Procurement Officer and the National Taxpayer Advocate, will develop and implement policies and procedures to ensure that DATA Act elements are entered correctly into the related systems and supporting documentation is maintained by the appropriate office. Training on manually entered DATA Act elements will be provided to IRS's Procurement and Grants staff with completion records maintained by each office. All Procurement activities associated with the DATA Act will be made in coordination with Treasury.

IMPLEMENTATION DATE

September 30, 2018

RESPONSIBLE OFFICIAL

Chief Financial Officer

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

The Chief Financial Officer, in coordination with the Chief Procurement Officer and the National Taxpayer Advocate should enhance quality assurance procedures to improve the accuracy of the Data Act procurement and grant attribute information, and provide additional assurance that contract and grant files contain current and appropriate documentation.

CORRECTIVE ACTION

The IRS agrees with this recommendation. The Chief Financial Officer, working with the Chief Procurement Officer and the National Taxpayer Advocate, will develop and document in a standard operating procedure a quality assurance review process addressing DATA Act procurement and grant attribute information to ensure that contract and grants files contain appropriate documentation. All Procurement activities associated with the DATA Act will be made in coordination with Treasury.



*Fiscal Year 2017 Digital Accountability
and Transparency Act Reporting Compliance*

IMPLEMENTATION DATE

September 30, 2018

RESPONSIBLE OFFICIAL

Chief Financial Officer

CORRECTIVE ACTION MONITORING PLAN

N/A