



Committee On Finance

Max Baucus, Ranking Member

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GAO Report on IRS Lockbox Banks

During the 2000 tax filing season, more than 76,000 income tax payments to the IRS valued at \$1.2 billion were lost or destroyed at a lockbox facility operated by the Mellon Financial Corporation in Pittsburgh. As a result, thousands and thousands of lives were disrupted by disputes over non-payment of income tax to the IRS. Today, the Government Accounting Office (GAO) issued a report showing that oversight of lockbox banks during fiscal year 2002 was not fully effective to ensure that taxpayer data and receipts were adequately safeguarded and properly processed.

The GAO reviewed existing and planned security and internal control measures at all lockbox banks that are under contract with the Department of Treasury's Financial Management Service (FMS) to provide services for the IRS. The lockbox program is designed to accelerate the deposit of tax payments by having taxpayers send their payments to commercial banks rather than to the IRS. There are currently eleven commercial banks across the country that serve as IRS lockbox facilities. In fiscal year 2002, the IRS collected over \$2 trillion. Of that amount, financial institutions serving as lockbox banks processed more than \$268 billion.

Throughout the GAO investigation, a number of security breaches were observed, including unlocked perimeter doors, unresponsive guards to door alarms, poor employment status verification process, inadequate visitor control, lack of monitoring of items brought into or out of the processing areas and lack of adequate camera surveillance. With regard to processing controls, additional security deficiencies were found, such as inadequate candling procedures, inadequate safeguards for cash receipts, and inadequate protection of returned refund checks from theft.

The GAO also reports that the IRS and the FMS have not performed a comprehensive study of the costs and benefits of using lockbox banks. Therefore, it is unclear whether forgoing the speedier deposit of tax receipts and using IRS funds elsewhere, such as within other high-yield compliance activities, might result in financial benefits to the government that would be greater than those generated by accelerating the deposit of receipts.

“Today’s findings by the GAO are concerning, especially given the number of lives impacted and funding lost as a result of the poor management and oversight of the IRS lockbox program,” Baucus said. “The use of outside contractors to perform inherently governmental functions, like collecting taxes, cannot be successful unless there is true accountability and effective oversight. While I recognize that all vulnerabilities cannot be eliminated, the IRS must do more to secure taxpayer data and receipts. It is also very important that before we move forward with additional privatization of certain government services and programs, we ensure that there is real cost-savings benefits involved.”