



*The Background Investigation Process
Needs Improvements to Ensure
Investigations Are Completed Timely and
Effectively*

March 28, 2007

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March 28, 2007

MEMORANDUM FOR CHIEF, MISSION ASSURANCE AND SECURITY SERVICES

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Background Investigation Process Needs Improvements to Ensure Investigations Are Completed Timely and Effectively (Audit # 200520033)

This report presents the results of our review of the Internal Revenue Service's (IRS) Background Investigation Process. The overall objective of this review was to determine whether the IRS' current background investigation process ensures investigations are completed timely and effectively and assures management that IRS and contractor employees are suitable for employment. This audit was part of the statutory audit coverage under the Information Systems Programs and is included in the Treasury Inspector General for Tax Administration Fiscal Year 2006 Annual Audit Plan.

Impact on the Taxpayer

The IRS maintains sensitive financial information for more than 226 million taxpayers. Because many IRS and contractor employees must have access to sensitive taxpayer information to administer the nation's tax system, the IRS must be particularly cognizant of hiring only those applicants with the highest integrity. Unsuitable IRS and contractor employees could gain access to sensitive taxpayer information for unauthorized purposes, including identity theft.



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Synopsis

Background investigations are the initial step in the process of ensuring the highest standards of honesty, integrity, and security are met. We analyzed the timeliness and effectiveness of IRS, contractor, bank lockbox,¹ and contract cleaning crew employee background investigations.

The IRS' process for prescreening its employees prior to conducting the background investigations on employees was appropriate and effective. IRS employees were fingerprinted, and preliminary checks were completed prior to the employees gaining access to IRS facilities and systems. Also, IRS employee background investigations were appropriate for the level of risk associated with the positions.

However, background investigations were not completed timely for IRS and contractor employees. The IRS did not complete 77 percent of the IRS employee investigations and 72 percent of the contractor employee investigations we sampled within established IRS baselines. In addition, business unit managers authorized some contractor employees to gain access to IRS computer systems before fingerprint analyses had been received by the IRS. The lack of documentation in the case files for IRS and contractor employee background investigations precluded us from identifying the causes of the delays. Delays in processing background investigations increase the risk that the IRS may be hiring unsuitable IRS and contractor employees that could compromise sensitive taxpayer information, physically harm employees, and disrupt operations.

Furthermore, temporary bank (lockbox) employees who assist lockbox sites in handling more than \$360 billion in taxpayer remittances per year receive only an annual fingerprint check. In 2005, 54 remittances totaling approximately \$2.8 million were stolen from 1 of the lockbox sites. Foreign nationals² were responsible for the majority of the theft. The IRS is currently working with the Department of the Treasury Financial Management Service to revise the requirements for hiring temporary lockbox employees. At a minimum, temporary lockbox employees shall be legal permanent residents who have resided in the United States for at least 5 years. If an effective method to establish residency for temporary lockbox employees can not be determined, the Financial Management Service may consider hiring only United States citizens in the future.

Also, background investigations were not always required for cleaning contractor employees who had access to IRS office space. Of the 19 contracts we reviewed, 8 (42 percent) did not require background investigations on cleaning contractor employees. In another review conducted in 9 locations, the Treasury Inspector General for Tax Administration Office of

¹ The IRS lockbox program consists of commercial banks that have contracted with the Financial Management Service to process tax payments. This program was designed to accelerate the deposit of tax payments by having taxpayers send their payments to commercial banks rather than to the IRS.

² Any person who is not a citizen or a permanent resident alien of the United States.



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Investigations found that 17 cleaning contractor employees were given access to IRS facilities without having had background investigations. Three of these 17 employees were using stolen Social Security Numbers, and their true identities are unknown. Hiring cleaning contractor employees without performing background investigations increases the risk that unsuitable individuals can gain access to IRS facilities where taxpayer information is vulnerable. Unsuitable cleaning contractor employees could harm IRS employees, steal taxpayer identities and Federal Government assets, and obtain unauthorized sensitive tax information. Compliance with recent requirements from the Office of Management and Budget will reduce this risk.

Recommendations

We recommended the Chief, Mission Assurance and Security Services, ensure the Automated Background Investigation System³ is programmed to track the time expended to process background investigations. Alerts and reports to management should be developed to enable management to determine when and where delays occur and ensure investigations are completed within established baselines. The Chief, Mission Assurance and Security Services, should also periodically remind business unit managers, contracting officials, and system administrators to review documentation verifying that contractor employees have been prescreened before they are given access to computer systems. Because actions are underway to improve background investigations of temporary bank employees and cleaning contractor employees, we made no additional recommendations.

Response

IRS management agreed with both of our recommendations. The Automated Background Investigation System tracks the amount of time it takes to process an investigation and managers have the ability to use inventory reports to track case actions and case delays. In addition, an alert will be deployed that will warn Investigative Analysts 90 days prior to employees' probationary periods ending. The Program Manager, Personnel Security and Investigations, will also work with the Mission Assurance and Security Services organization's communications liaison to post periodic notices reminding business unit managers, contracting officials, and system administrators of their responsibilities prior to adding contractor employees to computer systems. Management's complete response to the draft report is included as Appendix VIII.

³ The Automated Background Investigation System is used by the IRS to track and monitor background investigations while they are being conducted. Employees manually update the system.



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Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs) at (202) 622-8510.



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Abbreviations

GSA	General Services Administration
HSPD-12	Homeland Security Presidential Directive-12
IRS	Internal Revenue Service
NAC	National Agency Check
NACI	National Agency Check and Inquiry
OPM	Office of Personnel Management
PS&I	Personnel Security and Investigations



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Background

The Internal Revenue Service (IRS) maintains sensitive financial information for more than 226 million taxpayers. Because many IRS employees and contractors must have access to sensitive taxpayer information to administer the nation's tax system, the IRS must be particularly cognizant of hiring only those applicants with the highest integrity. The IRS uses several controls to deter and detect abuse of sensitive information, but conducting background investigations is the initial step in the process of ensuring the highest standards of honesty, integrity, and security are met. The background investigation process provides at least some assurance that IRS and contractor employees can be trusted with sensitive taxpayer information.

Background investigations provide some assurance that IRS and contractor employees can be trusted with sensitive taxpayer information.

The IRS mandates that all applicants accepted for positions be prescreened prior to their entry into the IRS workplace. During prescreening, the IRS fingerprints the applicant, checks for compliance with Federal tax laws, and performs other checks that must be evaluated prior to allowing unescorted access into IRS facilities. If the prescreening results are favorable, and the applicant becomes an employee, the IRS initiates a more thorough background investigation. The background investigation process for employees involves several IRS functions, each with a different role for completing the investigation. Appendix IV outlines the current IRS employee background investigation process. The scope of an employee background investigation varies based on the risks associated with the employee's position. Appendix VI outlines the different types of IRS employee background investigations for the various risk levels.

Contractor employees must also be prescreened prior to being provided access to IRS facilities and sensitive tax systems. If a contractor employee is expected to be working for more than 30 calendar days, several prescreening checks are required, including fingerprint results and Federal tax compliance. All of the prescreening must be evaluated prior to allowing a contractor employee entry into IRS facilities. If only positive information is found, the IRS provides the contractor employee access to the facilities and systems needed to complete the given task and initiates a more thorough background investigation. Each contractor employee is required to have a background investigation appropriate to the risks associated with the job that he or she will perform. Appendix V outlines the steps involved in the contractor employee background investigation process. Appendix VII outlines the different types of contractor employee background investigations for the various risk levels.

This review was performed at the office of Mission Assurance and Security Services in the IRS National Headquarters and the National Background Investigations Center facilities in Florence, Kentucky, during the period November 2005 through December 2006. The audit was conducted



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



The Background Investigation Process Needs Improvements to Ensure Investigations Are Completed Timely and Effectively

Results of Review

Applicants Were Appropriately Prescreened; However, Employee Background Investigations Were Not Completed Timely

The IRS appropriately prescreened applicants for IRS positions before granting them access to its facilities and systems. The prescreening test results included fingerprints and the applicants' compliance with Federal tax laws along with other requirements. Our review of a judgmental sample of 54 IRS employees determined these steps were taken for all 54 (100 percent) of the employees. This control is an important step to reduce the IRS' risk of providing access to sensitive data to unsuitable persons. Also, all 54 of the IRS employees had received the appropriate type of background investigation for the risk level of their positions.

Employee background investigations were not completed timely

Because IRS employees are given access to systems and facilities while their background investigations are being conducted, it is essential that the investigations be completed as quickly as possible. Prior to our review, the IRS had established specific timeliness goals for completing IRS employee background investigations based on the risk of the employee's position. For example, it required investigations for high-risk positions to be completed within 105 calendar days and investigations for moderate-risk positions to be completed within 180 calendar days from the employees' enter-on-duty date. In March 2004, the IRS stated these baselines were not feasible and subsequently revised its managers' performance plans to require that all IRS employee background investigations be completed within 200 calendar days from the employees' enter-on-duty date.

We reviewed 51 of the 54¹ IRS employee background investigations previously mentioned to determine whether the investigations were completed timely. Due to limited resources, the IRS sometimes contracts with the Office of Personnel Management (OPM) to complete background investigations. In our sample, 7 of the 51 background investigations were performed by the OPM; the IRS performed the other 44 investigations. Of the 44 background investigations completed by the IRS, 34 (77 percent) were not completed within established IRS baselines and 28 (64 percent) did not meet managers' performance plan

IRS employee background investigations were untimely in 77 percent of the cases we reviewed.

¹ Three of the 54 cases were excluded because the employees had resigned and their investigations were not completed.



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expectations. On average, the IRS took 278 calendar days to complete investigations for high-risk positions and 249 calendar days to complete investigations for moderate-risk positions.

In Fiscal Year 2005, the OPM averaged 562 calendar days to complete 92 background investigations. In our sample, the OPM conducted 7 background investigations, averaging 366 calendar days for 5 moderate-risk investigations and 305 calendar days for 2 low-risk investigations. Of the 7 investigations, 3 (43 percent) took more than 1 year to complete.

The background investigation process involves several IRS functions and various outside agencies. The lack of documentation in the case files precluded us from identifying the causes of the delays. While the IRS recently put budget codes into its management information system to track costs for background investigations, it currently does not monitor and track case processing delays in completing background investigations. Delays in processing background investigations increase the risk that the IRS may be hiring unsuitable employees who could compromise sensitive taxpayer information, physically harm employees, and disrupt operations.

Recommendation

Recommendation 1: The Chief, Mission Assurance and Security Services, should ensure the Automated Background Investigation System² is programmed to track the time expended to process background investigations. Alerts and reports to management should be developed to enable management to determine when and where delays occur and ensure investigations are completed within established baselines. Analyses of this information will also help identify resource requirements.

Management's Response: IRS management agreed with this recommendation. The Automated Background Investigation System tracks the amount of time it takes to process an investigation and managers have the ability to use inventory reports to track case actions and case delays. In addition, an alert will be deployed that will warn Investigative Analysts 90 days prior to the ending of employees' probationary periods.

Contractor Employees Were Given Access to Computer Systems Prematurely, and Background Investigations Were Not Completed Timely

The IRS granted contractor employees access to its computer systems prior to receiving their prescreening results. Contractor employees had the appropriate background investigations for the risk level of their positions; however, background investigations were not completed timely. Granting contractor employees access to sensitive systems without prescreening and delays in

² The Automated Background Investigation System is used by the IRS to track and monitor background investigations while they are being conducted. Employees manually update the system.



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processing background investigations increase the IRS' risk that unsuitable contractor employees may gain access to sensitive data.

Some contractor employees were provided access to IRS systems before their prescreening tests were completed

Before contractor employees are allowed access to computer systems, business unit managers must request the PS&I office to conduct fingerprint tests. If results are positive, the PS&I office forwards a letter to the business unit manager, through the Contracting Officer's Technical Representative,³ stating that the contractor employee has qualified for access. The business unit manager is required to attach this letter to the system access request form and forward the documents to the appropriate system administrator before a contractor employee is granted access to an IRS system.

We selected a judgmental sample of 48 contractor employees to determine if they had been given access to computer systems prior to completion of their prescreening tests. The IRS provided the dates on which the contractor employees had been granted access to systems for only 11 (23 percent) of the 48 contractor employees in our sample. Business unit managers gave 5 (45 percent) of these 11 contractor employees access to IRS computer systems before they had received the prescreening test results from the PS&I office.

IRS business unit managers did not ensure contractors had been prescreened prior to requesting that they be given access to IRS systems. In addition, system administrators may have added contractors to the systems without receipt of proper documentation verifying that all prescreening tests had been completed. We were unable to determine if the other 37 contractor employees in our sample had been given access to sensitive systems prior to completion of their prescreening tests because the IRS could not provide the documentation.

Contractor employee background investigations were not completed timely

Because contractor employees are given access to systems and facilities while their background investigations are being conducted, the investigations must be completed as quickly as possible. The IRS' baselines for completing contractor employee background investigations require that investigations for high-risk positions be completed within 105 calendar days, investigations for moderate-risk positions within 75 calendar days, and investigations for low-risk positions within 30 calendar days from the contractor employees' enter-on-duty date. As with IRS employee background investigations, the IRS stated the original baselines were not feasible and revised its managers' performance plans to require a baseline of 200 calendar days for completion for all contractor employee background investigations from the enter-on-duty date.

³ Contracting Officer's Technical Representatives are responsible for the contract award and administration process; they must ensure all terms and conditions of the contracts they manage are met and taxpayer dollars are prudently spent.



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We selected and reviewed another judgmental sample of 50 IRS contractor employee background investigations. On average, the IRS took 183 calendar days to complete investigations for high-risk positions, 106 calendar days to complete investigations for moderate-risk positions, and 53 calendar days to complete investigations for low-risk positions. In our sample, 36 (72 percent) of the 50 investigations were not completed within established IRS baselines. However, only 6 (12 percent) exceeded the managers' performance plan expectations.

We could not determine the cause of the delays in contractor employee background investigations because actions taken were not sufficiently documented in the case files. As with IRS employees, the IRS is currently defining budget codes to track the time and cost of the background investigation process to enable it to monitor and compute the costs associated with contractor employee investigations. Enabling the Automated Background Investigation System to track the time it takes to complete individual processes for background investigations will help the PS&I office determine where delays occur. Processing delays increase the risk that the IRS is hiring unsuitable contractor employees who could gain access to sensitive tax systems or taxpayer information.

Recommendation

Recommendation 2: The Chief, Mission Assurance and Security Services, should periodically remind business unit managers, Contracting Officer's Technical Representatives, and system administrators to review documentation verifying that contractors have been prescreened before they are given access to computer systems.

Management's Response: IRS management agreed with this recommendation. The Program Manager, PS&I office, will coordinate with the Mission Assurance and Security Services organization's communications liaison to post periodic notices to remind business unit managers, Contracting Officer's Technical Representatives, and system administrators of their responsibilities in ensuring investigations have been conducted on contractors prior to their being granted access to computer systems.



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Background Investigation Requirements for Lockbox⁴ Employees and Cleaning Contractor Employees Need Additional Safeguards

Homeland Security Presidential Directive-12 (HSPD-12)⁵ guidelines require the IRS to conduct a background investigation on all IRS employees and contractor employees who need access to its facilities and systems for more than 6 months. In addition, short-term contractor employees (less than 6 months) need a fingerprint check and a Federal Bureau of Investigation criminal check; however, a full background investigation is not required. We determined that the background investigation requirements for lockbox employees and cleaning contractor employees were insufficient to protect taxpayer remittances and safeguard IRS employees and facilities.

Background investigations for lockbox employees were insufficient

The Department of the Treasury Financial Management Service enters into agreements with qualified financial institutions to perform lockbox collection services on behalf of the IRS. The financial institutions employ lockbox employees at 8 locations to process more than \$360 billion in taxpayer remittances annually. In 2005, 54 remittances totaling approximately \$2.8 million were stolen from 1 of the sites. Foreign nationals⁶ were responsible for the majority of the theft. In addition to the lost revenue, thefts cause undue burden for the taxpaying public. For example, a stolen remittance will generate a balance-due notice to the taxpayer, requiring the taxpayer to provide evidence and proof that the payment was timely made.

Under these agreements, the IRS sets guidelines for hiring and security at the lockbox sites. The only type of screening required for temporary lockbox employees is an annual fingerprint check from the Federal Bureau of Investigation. This type of check is insufficient for foreign nationals living in the United States because many have not been in the country long enough for a criminal history check to be meaningful, and the IRS has no means to determine their criminal history prior to entering the United States.

⁴ The IRS lockbox program consists of commercial banks that have contracted with the Financial Management Service to process tax payments. This program was designed to accelerate the deposit of tax payments by having taxpayers send their payments to commercial banks rather than to the IRS.

⁵ HSPD-12 (dated October 27, 2005) requires agency implementation of secure and reliable Federal Governmentwide forms of identification of employees and contractors; it also mandates when background investigations should be completed on new and current employees.

⁶ Any person who is not a citizen or a permanent resident alien of the United States.



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An August 5, 2005, memorandum issued by the Office of Management and Budget⁷ to all Federal Government agencies provided guidance on implementing HSPD-12 and acknowledged that foreign national employees and contractor employees may not have lived in the United States long enough for a limited background investigation to be meaningful. The Office of Management and Budget is in the process of establishing an interagency working group to explore whether guidance is necessary with respect to background investigations on foreign national employees and contractor employees. One recommendation under consideration is to give the OPM access to State Department databases to determine foreign criminal activity of the applicant.

Background investigations on lockbox employees were insufficient. Many of these employees are from foreign countries, and the annual fingerprint check is not adequate.

The Financial Management Service is currently negotiating its lockbox agreements with banks for 2007. During peak processing periods, the work performed at lockbox sites is typically accomplished using temporary staff. The IRS is currently working with the Financial Management Service to revise the requirements for hiring temporary lockbox employees. At a minimum, temporary lockbox employees shall be legal permanent residents who have resided in the United States for at least 5 years. If an effective method to establish residency for temporary lockbox employees can not be determined, the Financial Management Service may consider hiring only United States citizens in the future.

Background investigations for cleaning service employees were not conducted

Hiring cleaning contractor employees without performing background investigations increases the risk that unsuitable individuals can gain access to IRS facilities where taxpayer information is vulnerable. Unsuitable cleaning contractor employees could harm IRS employees, steal taxpayer identities and Federal Government assets, and obtain unauthorized sensitive tax information.

The General Services Administration (GSA) manages Federal Government buildings and is responsible for contracting for cleaning services. The GSA is also responsible for contracting for cleaning services when the IRS leases space from third parties. We requested 20 GSA cleaning contracts for IRS space to determine if background investigations were required on the cleaning contractor employees entering IRS facilities. We received 19 of the 20 contracts from the GSA (1 of the contracts had expired). Five of the IRS facilities were Federal Government buildings controlled by the GSA; the other 14 were leased buildings controlled by the lessor. Of the 19 contracts we reviewed, 8 (42 percent) did not require background investigations on cleaning contractor employees. Although the other 11 (58 percent) contracts had specific language requiring background investigations, we were unable to confirm that background investigations

⁷ The Office of Management and Budget is a division of the Executive Office of the President of the United States that administers and prepares the Federal Government budget and issues guidance on how to improve management practices Federal Governmentwide.



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had been conducted for cleaning contractor employees because the GSA was not willing to provide their names due to privacy concerns.

In another review conducted by the Treasury Inspector General for Tax Administration Office of Investigations, all facilities in the state of Arizona in which the IRS occupies office space were reviewed to determine whether cleaning contractor employees had had some type of background investigation completed prior to working in an IRS facility. The Office of Investigations determined that 17 individuals were assigned cleaning duties for the 9 office locations maintained by the IRS throughout Arizona. Neither the IRS nor the GSA knew or readily had available the names and identity information for these individuals, and the GSA, at the request of the Office of Investigations, obtained the information from its contractors. Three (18 percent) of the 17 employees were using stolen Social Security Numbers, and their true identities are unknown.

Cleaning contractor employees were using stolen Social Security Numbers, and their true identities are unknown.

The IRS did not ensure the GSA included specific language in contracts to require background investigations for the cleaning contractor employees. The GSA is aware of the new requirements of HSPD-12 and stated it will have background investigations completed for all new and current janitorial employees by the required HSPD-12 implementation deadline of October 27, 2007. The IRS and the GSA are in the process of initiating, identifying, and requesting that these background investigations be completed.

Because actions are underway to improve background investigations of temporary bank employees and cleaning contractor employees, we are making no additional recommendations.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS' current background investigation process ensures investigations are completed timely and effectively and assures management that IRS and contractor employees are suitable for employment. To accomplish this objective, we:

- I. Reviewed current Department of the Treasury and IRS policies and procedures for processing and conducting background investigations on IRS and contractor employees and obtained the criteria PS&I office employees follow to process and conduct background investigations.
- II. Determined whether background investigations for IRS employees, IRS contractor employees, GSA cleaning contractor employees, and bank lockbox¹ employees were completed timely.
 - A. Determined whether background investigations for IRS employees and IRS contractor employees were completed timely.
 1. Obtained a download of Fiscal Years 2004 and 2005 Security Entry and Tracking System² data with a population of 22,559 IRS employees and 6,844 contractor employees and the Automated Background Investigation System³ data with 13,552 IRS employees and 8,285 contractor employees to determine the populations of IRS employees and contractor employees that were required to have background investigations. We determined the Automated Background Investigation System had multiple records for some of the people while the Security Entry and Tracking System data only had one record for each person. This was due to the Automated Background Investigation System recording multiple investigations on the same person where the Security Entry and Tracking System only records a person only once. Further validations of these downloads

¹ The IRS lockbox program consists of commercial banks that have contracted with the Financial Management Service to process tax payments. This program was designed to accelerate the deposit of tax payments by having taxpayers send their payments to commercial banks rather than to the IRS.

² The Security Entry and Tracking System is a Department of the Treasury subsystem of the National Finance Center personnel/payroll system. It is used to track the completion of background investigations, fingerprints, and security clearances for applicants, contractors, consultants, volunteers, and employees.

³ The Automated Background Investigation System is used by the IRS to track and monitor background investigations while they are being conducted. Employees manually update the system.



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were unwarranted because we only used the information to select our samples of employees and contractors.

2. From the download, selected judgmental samples of 54 IRS employees and 50 contractor employees and reviewed Security Entry and Tracking System data, Personnel Office data, and case files to determine whether IRS and contractor employees' fingerprints were processed timely. Judgmental samples were used because we were not projecting the results.
 3. Reviewed database information and case files to determine whether the entry-on-duty dates for the IRS and contractor employees in the samples were within the past 1 year to 2 years and the investigations were completed within a 1-year time period from the enter-on-duty date.
- B. Determined whether background investigations for GSA cleaning contractor employees working within IRS facilities were completed timely.
1. Reviewed IRS contracts with the GSA to determine whether the contracts require the GSA to conduct a background investigation or fingerprint test prior to hiring a cleaning contractor employee.
 2. Selected a judgmental sample of 20 IRS facilities from a population of 750 with the highest risk of not having background investigations completed on cleaning contractor employees. A judgmental sample was used because we were not projecting the results.
- C. Determined whether background investigations for bank lockbox employees were completed timely.
1. Contacted the Financial Management Service and obtained one IRS lockbox contract out of eight to determine whether background investigations were required. The lockbox contracts all contained the same wording (i.e., adopting the same lockbox regulations).
 2. Selected a judgmental sample of 63 of 2,189 bank lockbox employees from the Automated Background Investigation System. A judgmental sample was used because we were not projecting the results.
- III. Determined whether background investigations for IRS employees, IRS contractor employees, GSA cleaning contractor employees, and bank lockbox employees were effective.
- A. Determined whether background investigations for IRS employees and IRS contractor employees were effective.



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1. Reviewed case files for the samples in Step II.A.2. to determine the average length of time spent on the background investigation process before the IRS employees or contractor employees were approved or terminated.
 2. Reviewed system access forms to determine the dates on which the IRS employees or contractor employees were given access to IRS systems before completion of their background investigations.
- B. Determined whether background investigations for GSA cleaning contractor employees working within IRS facilities were effective. We contacted the GSA to obtain contractor and cleaning crew names, Social Security Numbers, addresses, and any other information to determine the number of employees and their identities. We were unable to determine whether a prudent decision was made in hiring the employees to clean IRS facilities because the GSA was reluctant to give us the information regarding cleaning contractor employees selected.
- C. Determined whether background investigations for bank lockbox employees were effective.



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Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs)
Stephen Mullins, Director
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George Franklin, Senior Auditor
Bret Hunter, Senior Auditor
Jimmie Johnson, Senior Auditor



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Appendix III

Report Distribution List

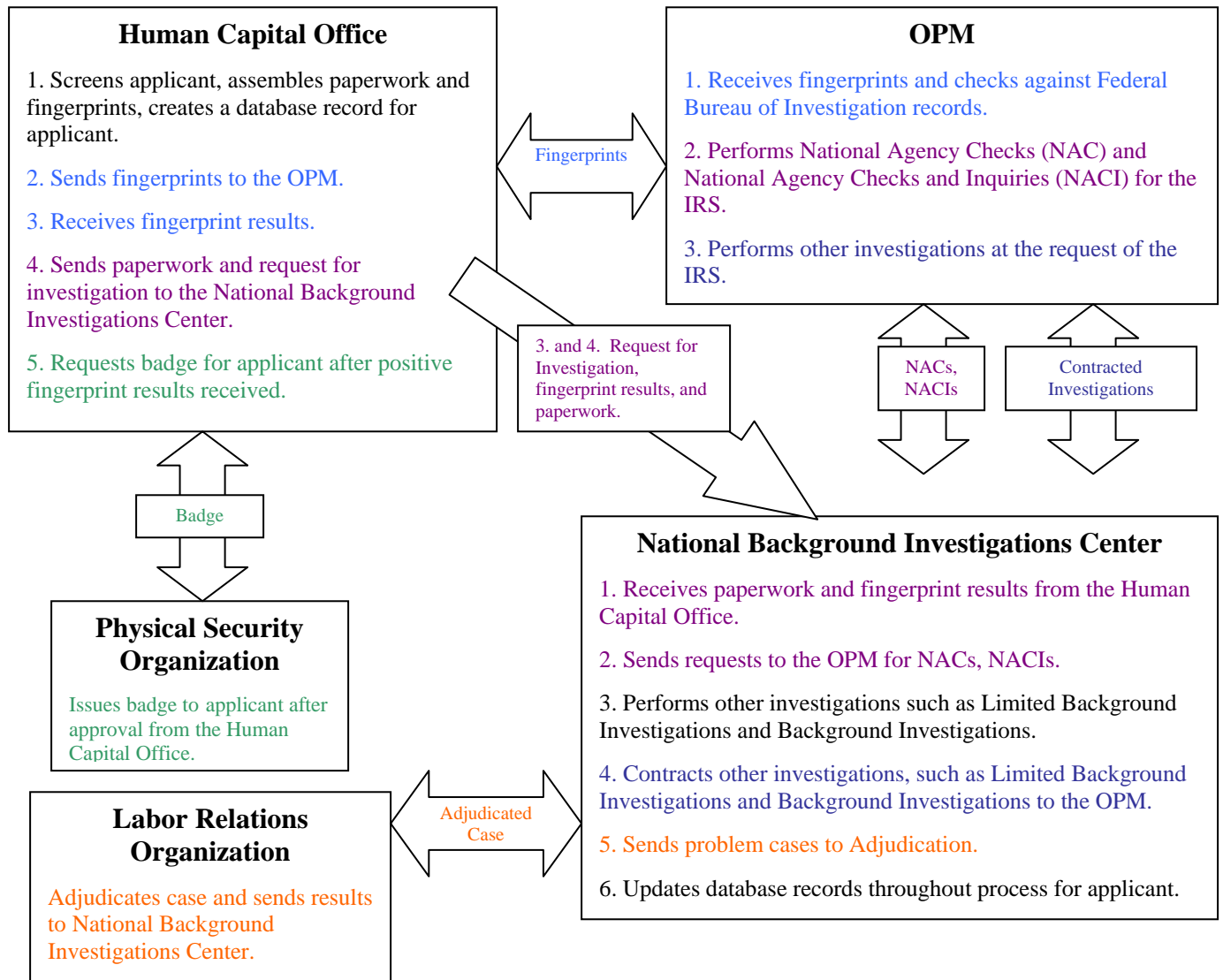
Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Commissioner, Wage and Investment Division SE:W
Chief, Agency-Wide Shared Services OS:A
Chief Human Capital Officer OS:HC
Director, Real Estate and Facilities Management OS:A:RE
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons
 Chief, Agency-Wide Shared Services OS:A:F
 Chief Human Capital Officer OS:HC
 Chief, Mission Assurance and Security Services OS:MA



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Appendix IV

Internal Revenue Service Employee Background Investigation Process



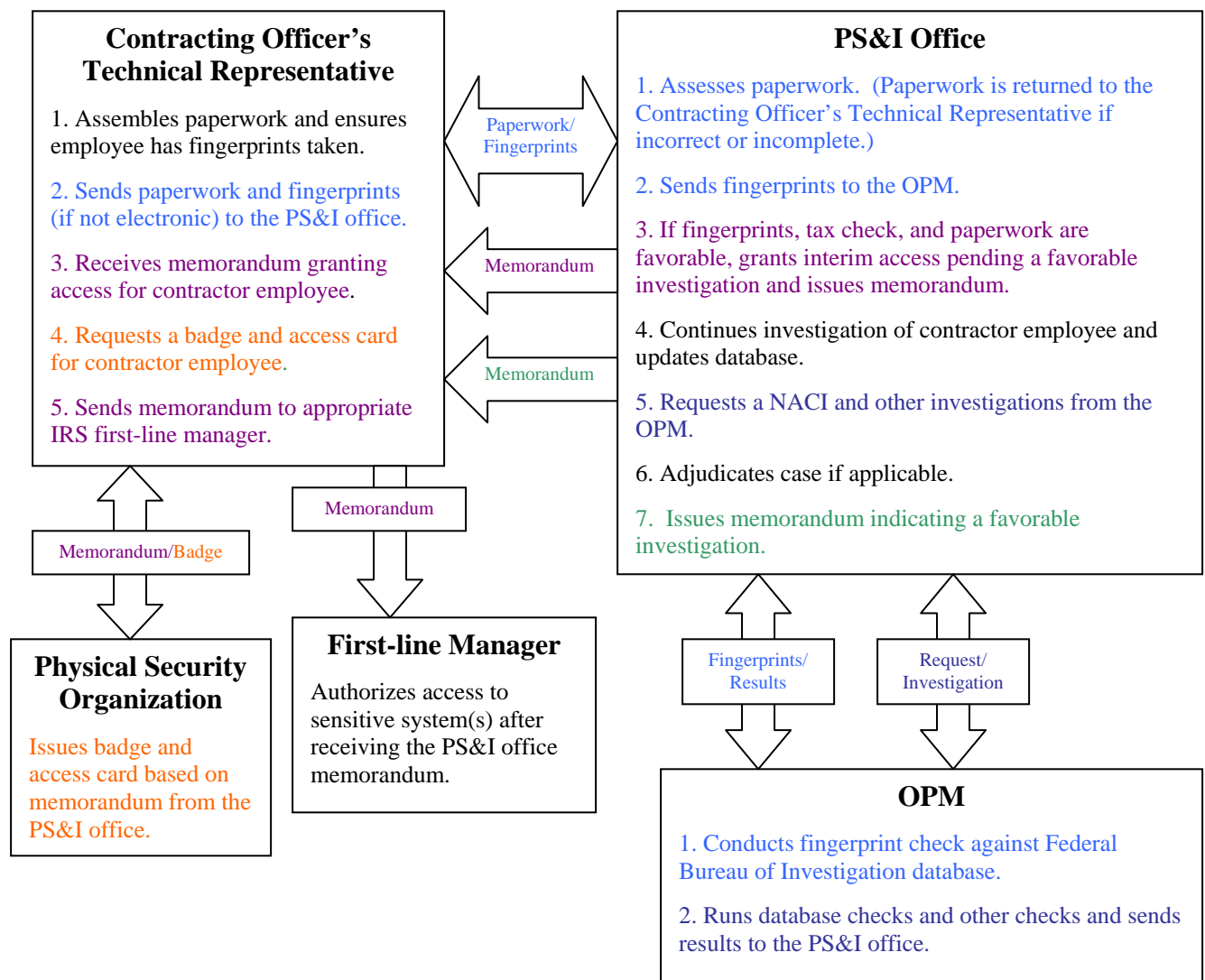
Source: The Treasury Inspector General for Tax Administration’s depiction of the IRS’ employee background investigation process. For more detailed explanation of the types of employee background investigations see Appendix VI.



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Appendix V

Contractor Employee Background Investigation Process



Source: The Treasury Inspector General for Tax Administration's depiction of the IRS' contractor investigation program. For a more detailed explanation on the types of contractor employee background investigations see Appendix VII.



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Appendix VI

Types of Background Investigations Identified in Internal Revenue Service Employee Case Reviews

Figure 1: Suitability Background Investigations for Public Trust Positions

Risk Level	Type of Background Investigation	Investigation Description	Example of Position	Job Duties
High	Background Investigation	The National Background Investigations Center and/or OPM conducts NACs ¹ and initiates a personal subject interview, written inquiries, and/or personal contacts to educational institutions, employers, personal references, credit reporting agencies, and law enforcement agencies in regard to the applicant or employee. The depth of coverage goes back 5 years.	Special Agent	Investigates potential criminal violations and related financial crimes of the Internal Revenue Code.
Moderate	Limited Background Investigation	The National Background Investigations Center and/or OPM conducts NACs and initiates a personal subject interview, written inquiries, and/or personal contacts to educational institutions, employers, personal references, credit reporting agencies, and law enforcement agencies in regard to the applicant or employee. The depth of coverage goes back 3 years.	Revenue Agent	Meets with taxpayers and collects delinquent taxes from them.
Low	NACI ²	The OPM conducts checks of national agencies and initiates written inquiries to educational institutions, employers, personal references, and law enforcement agencies about the applicant or employee. The results are sent to the National Background Investigations Center.	Mail Clerk	Extracts and sorts mail received at the IRS locations.

Source: *The IRS National Background Investigations Center.*

NACIs are performed by the OPM. The high- and moderate-risk investigations are performed by the IRS National Background Investigations Center or may be contracted to the OPM to be performed.

¹ NACs are investigations where the subject's name is compared against multiple databases to determine if any derogatory information exists from their history.

² NACIs are investigations performed by the OPM. They consist of two parts: NACs and inquiries/interviews (I) with various references the subject provided that are conducted by an investigator.



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Appendix VII

Types of Background Investigations Identified in Contactor Employee Case Reviews

Figure 1: IRS Contactor Employee Background Investigations

Risk Level	Type of Background Investigation	Investigation Description	Example of Position	Job Duties
High	Background Investigation	The National Background Investigations Center and/or OPM conducts NACs and initiates a personal subject interview, written inquiries, and/or personal contacts to educational institutions, employers, personal references, credit reporting agencies, and law enforcement agencies in regard to the applicant or employee. The depth of coverage goes back 5 years.	System Administrator	Responsible for the daily operations and users of a particular computer system.
Moderate	NAC with Law and Credit ¹	This type of investigation serves as the complete background investigation for IRS contractor employees in moderate-risk positions. The scope of the investigation is 5 years. Investigative information may be obtained by personal, written, and/or telephone inquiry. Unfavorable information requires follow-up by personal contact.	Systems Engineer	Usually responsible for building part of an IRS computer system.
Low	Basic	This type of investigation serves as the complete background investigation for contractor employees in low-risk positions and as the basis for interim access approval for the contractor employees in moderate- and high-risk positions awaiting completion of a NAC With Law and Credit or background investigation.	Custodial Employee	Responsible for cleaning IRS work areas.

Source: The IRS PS&I Office.

On October 27, 2005, HSPD-12 required Federal Government agencies to be compliant with new security standards for background investigations. The IRS is currently compliant with HSPD-12 and has upgraded its investigations for these risk levels as follows:

- Low-risk positions require a NACI.
- Moderate-risk positions require a NACI and a credit check.

NACIs and NACIs with credit checks are traditionally contracted to the OPM. The background investigations may be conducted by the IRS or contracted to the OPM.

¹ NAC with Law and Credit is for moderate risk investigations for contractor employees. The NAC is where the applicant is checked against databases for derogatory information. The Law and Credit portion is where the applicant's law enforcement records are checked in the areas where he or she lived for the last 5 years and a credit check is made to ensure the applicant does not have bad credit.



The Background Investigation Process Needs Improvements to Ensure Investigations Are Completed Timely and Effectively

Appendix VIII

Management's Response to the Draft Report



CHIEF
MISSION ASSURANCE AND SECURITY SERVICES

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

MAR 14 2007

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MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Daniel Galik *D. Galik*
Chief, Mission Assurance and Security Services

SUBJECT: Response to Draft Audit Report – The Background Investigation Process Needs Improvements to Ensure Investigations Are Completed Timely and Effectively (Audit #200520033, I-trak #2007-21273)

Thank you for the opportunity to review the subject draft audit report, dated February 14, 2007. Since IRS employees and contractors must have access to sensitive taxpayer information to administer the nation's tax system, the issue of privacy and security over personal information is a top priority for the IRS. The IRS continues to take aggressive steps to further protect sensitive data to mitigate the risk of potential identity theft or other fraudulent activity. We are pleased that your report acknowledges:

- IRS employees were fingerprinted, and preliminary checks were completed prior to the employees gaining access to IRS facilities and systems.
- IRS employee background investigations were appropriate for the level of risk associated with the positions.
- Contractor employees must be prescreened prior to being provided access to IRS facilities and sensitive tax systems. In addition, each contractor is required to have a background investigation appropriate to the risks associated with the job to be performed.

We concur with both report recommendations. The first recommendation addresses tracking the time expended to process investigations and the reports and alerts to manage the background process. The second recommendation speaks to periodic reminders to IRS management to verify that contractors were prescreened prior to computer system access. Attached is a detailed response that outlines our corrective action plans for the report recommendations.

If you have any questions, please contact me at (202) 622-8910, or John Crandell, Program Manager, Personnel Security & Investigations at (202) 283-1841.

Attachment



The Background Investigation Process Needs Improvements to Ensure Investigations Are Completed Timely and Effectively

Management response to Draft Audit Report – The Background Investigation Process Needs Improvements to Ensure Investigations are Completed Timely and Effectively (Audit # 200520033)

RECOMMENDATION #1:

The Chief, Mission Assurance and Security Services, should ensure the Automated Background Investigation System is programmed to track the time expended to process background investigations. Alerts and reports to management should be developed to enable management to determine when and where delays occur and ensure investigations are completed within established baselines. Analyses of this information will also help identify resource requirements.

CORRECTIVE ACTION TO RECOMMENDATION #1:

The Automated Background Investigation System (ABIS) does track the amount of time it takes to process an investigation. Managers have the ability to see inventory lists of the Investigative Analysts (IAs) to determine where the oldest cases are. IA Managers can run inventory reports of open and closed cases with lapse times to determine where the delays may have occurred. IAs have the ability within their own search screens to sort open inventory in order to maintain timeliness standards. We currently have an alert designed and tested but not implemented to warn the IAs at 90 days prior to the probationary expiration date. Also, an alert is in the design phase to notify the National Security Manager at 20 days, in order to ensure that the timeliness of adjudication is maintained, which is a 30-day standard according to Intelligence Reform and Terrorism Prevention Act. Efforts are underway to deploy both alerts by spring 2007.

IMPLEMENTATION DATE: July 15, 2007

RESPONSIBLE OFFICIAL: Program Manager, Personnel Security & Investigations, OS:MA:PSI

CORRECTIVE ACTION MONITORING PLAN:

Progress monitored monthly in direct reports staff meetings with the Chief, Mission Assurance & Security Services.



The Background Investigation Process Needs Improvements to Ensure Investigations Are Completed Timely and Effectively

Management response to Draft Audit Report – The Background Investigation Process Needs Improvements to Ensure Investigations are Completed Timely and Effectively (Audit # 200520033)

RECOMMENDATION #2:

The Chief, Mission Assurance and Security Services, should periodically remind business unit managers, Contracting Officer's Technical Representatives, and system administrators to review documentation verifying that contractors have been prescreened before they are given access to computer systems.

CORRECTIVE ACTION TO RECOMMENDATION #2:

In March 2004, the Deputy Commissioner for Operations Support issued a memo reiterating IRS and Treasury policies and guidelines for contractor investigations requirements. IRS policy requires clearance of contractor employees prior to granting access to computer systems. Personnel Security & Investigations will draft and work with the Mission Assurance & Security Services Communications liaison to post periodic notices to IRS Communications Leaders' Alert to remind business unit managers, Contracting Officer's Technical Representatives (COTRs), and system administrators of their responsibilities in ensuring investigations have been conducted on contractors prior to information technology access being granted.

IMPLEMENTATION DATE: October 15, 2007

RESPONSIBLE OFFICIAL: Program Manager, Personnel Security & Investigations, OS:MA:PSI

CORRECTIVE ACTION MONITORING PLAN:

Progress monitored monthly in direct reports staff meetings with the Chief, Mission Assurance & Security Services.