

**Employee Background Investigations Were
Normally Completed; However, the Contractor
Employee Background Investigation Program
Needs Improvement**

February 2003

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INSPECTOR GENERAL
for TAX
ADMINISTRATION

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MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

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FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement (Audit # 200220009)

This report presents the results of our review of the Background Investigation Program. The overall objective of this review was to determine the effectiveness of the Background Investigation Program administration for both Internal Revenue Service (IRS) employees and contractor employees.

The IRS requires its employees and those of contractors working for the IRS to have background investigations to ensure the honesty and integrity of individuals, due to the sensitive nature of the tax information being handled. The IRS' Agency-Wide Shared Services (AWSS) organization is primarily responsible for completing the background investigations. The IRS uses the Department of Agriculture's Security Entry Tracking System (SETS) as its database to monitor the status of background investigations. The depth of background investigations (e.g., full, limited, etc.) depends upon the sensitivity of the information that the individuals will have access to during their work with the IRS. Employees in high-risk positions and those holding National Security Clearances are required to have periodic re-investigations.

In summary, the IRS had assured that most of the employee background investigations (93 percent) and re-investigations (96 percent) were completed or in process at the time of our review. However, we identified several areas in the Contractor Background Investigation Program that need improvement.

Contractor employee background investigations conducted by agencies other than the IRS are not properly controlled. Our review of the 4,380 contractor employees with identification badges allowing them access to the New Carrollton Federal Building (NCFB) found that 2,166 (49 percent) did not have any background investigation information in the SETS. Of these 2,166 contractor employees, 134 had not filed

required tax returns and 66 had not paid taxes of \$688,842 (see Appendix IV). As a result, management has no assurance that contractor employees have a completed background investigation that meets all IRS requirements and that contractor employees are current in their Federal tax obligations, which could be an indication of their overall trustworthiness and raise concerns about whether they should be allowed to perform work for the IRS.

Not all Contracting Officer's Technical Representatives (COTR) are requesting background investigations as required. We determined that 525 (23 percent) of 2,235 contractor employees on whom the IRS should have conducted the background investigations did not have background investigation information in the National Background Investigation Center database.

Similarly, we determined that identification badges are being issued without required background investigation documentation. For example, we judgmentally sampled badge records on 78 of 777 contractor employees with NCFB identification badges and no record in the SETS database, and found that only 5 (7 percent) of these badge records had documentation indicating that a background investigation had been performed.

The SETS does not include all the information needed to properly manage the Background Investigation Program. Therefore, stand-alone systems have been created to supplement the SETS. For example, the Personnel Security Office (PSO) is currently in the process of developing and testing a new system which management believes will be more flexible than the SETS and reduce the need for supplemental databases. The Office of Technical Contract Management (TCM) has also created a separate system to track the status and corresponding costs of background investigations. However, these two new systems track some of the same information and will not be integrated. Inadequate coordination and communication between the PSO and TCM organizations have resulted in the AWSS organization spending funds for the development and maintenance of non-integrated systems.

Finally, the identification badge system information is not complete and accurate. Our review of the identification badge system records for 4,380 contractor employees at the NCFB identified 230 records (5 percent) containing data omissions or incorrect data for key pieces of information (e.g., Social Security Number and contractor company name).

We recommended that the Chief, AWSS, ensure that all employees and contractor employees have current, completed background investigations that meet all IRS requirements; management reports are properly used to monitor timely completion of future background investigations; and all contractor employees have properly filed their tax returns and paid their tax obligations. The SETS and identification badge systems information needs to be complete and accurate; all contractor employee background investigations should be provided to NBIC; and a consolidated or integrated system that meets the needs of all stakeholders needs to be implemented, allowing stand-alone systems to be eliminated. The Chief, AWSS, also should ensure that all COTRs use the TCM system; periodic reconciliation of information is conducted to detect the issuance of contractor employee identification badges without completion of background

investigations; and training is provided to emphasize background investigation requirements, employee responsibilities, and the documentation required for contractor employee identification badge issuance.

Management's Response: IRS management agreed with the recommendations presented in this report. Planned corrective actions include re-emphasizing background investigation requirements, improving COTR training, improving the identification badge issuance process, monitoring business measures to ensure timely completion of investigations, and establishing a stakeholder project team to assess background investigation program management.

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 who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Gary V. Hinkle, Acting Assistant Inspector General for Audit (Information Systems Programs), at (202) 927-7291.

**Employee Background Investigations Were Normally
Completed; However, the Contractor Employee
Background Investigation Program Needs Improvement**

Table of Contents

Background	Page 1
Background Investigations on Employees Were Normally Completed	Page 2
<u>Recommendation 1</u> :	Page 4
Background Investigations on Contractor Employees Were Not Properly Completed	Page 4
<u>Recommendations 2 through 5</u> :	Page 11
<u>Recommendation 6</u> :	Page 12
Several Systems Have Been Created to Supplement the Security Entry Tracking System.....	Page 12
<u>Recommendations 7 and 8</u> :	Page 15
Identification Badge System Information Is Not Complete and Accurate	Page 15
<u>Recommendation 9</u> :	Page 16
Appendix I – Detailed Objective, Scope, and Methodology	Page 17
Appendix II – Major Contributors to This Report.....	Page 18
Appendix III – Report Distribution List	Page 19
Appendix IV – Outcome Measures	Page 20
Appendix V – Glossary of Terms	Page 22
Appendix VI – Management’s Response to the Draft Report	Page 24

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

Background

Internal Revenue Service (IRS) employees and employees of contractors doing work for the IRS are required to have background investigations to ensure the honesty and integrity of the individuals, due to the sensitive nature of the tax information handled by the IRS. The depth of the background investigations (e.g., full, limited, etc.) depends upon the sensitivity of the information that the individuals will have access to during their work with the IRS.

The IRS' Agency-Wide Shared Services (AWSS) organization has primary responsibility for completing background investigations and providing access to IRS facilities through the following offices:

- The National Background Investigation Center (NBIC) under the Personnel Security Office (PSO) is responsible for conducting background investigations on IRS and contractor employees.
- The PSO accepts background investigations of contractor employees completed by other government agencies, such as the Department of Defense, the Office of Personnel Management, and the General Services Administration (GSA). These contractor employees are usually in offices outside of National Headquarters and are employed in various positions, including security guard services or cafeteria workers.
- The Real Estate and Facilities Management (REFM) Office is responsible for issuing identification badges to IRS and contractor employees, allowing access to IRS facilities.

Previous reviews of background investigations have reported the following issues:

- The Treasury Inspector General for Tax Administration (TIGTA), formerly the IRS' Internal Audit function, report, *Review of the Service's Background Investigation Program for ADP Contractors* (Reference Number 070605, dated December 1996), stated that the Information Systems Contractor Background Investigation Program was ineffective. The audit found that 532 (60 percent) of the 888 contractors reviewed did

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

not have background investigations or other acceptable clearances.

- The General Accounting Office (GAO) report, *IRS' Fiscal Year 2001 and 2000 Financial Statements* (GAO/GAO-02-414, dated February 2002), stated that while the IRS has not achieved total compliance with the fingerprint requirement check prior to employees entering on duty, significant progress has been made. Of approximately 20,000 employees hired during Fiscal Year (FY) 2001, only 104 began working prior to the IRS' receipt and evaluation of their fingerprint checks. Furthermore, in their report, *Management Report: Improvements Needed in IRS' Accounting Procedures and Internal Controls* (GAO-02-746R, dated July 2002), GAO discussed their analysis of 20,500 records in the database used by the IRS to monitor background investigations, which found 411 records with erroneous or missing data. According to IRS staff, these problems were due to technical limitations in the database and human error.

This audit was conducted in the AWSS functions at the National Headquarters in Washington, D.C., and New Carrollton, Maryland; Florence, Kentucky; and the Memphis IRS Campus/Tennessee Computing Center in Memphis, Tennessee from February through November 2002. This audit was scheduled as part of the TIGTA's FY 2002 Annual Plan and was performed 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. A Glossary of Terms is presented in Appendix V.

Background Investigations on Employees Were Normally Completed

IRS procedures require background investigations on all employees. Re-investigations are also required periodically for employees in high-risk positions and those holding a National Security Clearance.

The IRS uses the Department of Agriculture's Security Entry Tracking System (SETS) as its background investigation information tracking database. We reviewed

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

SETS information as of April 25, 2002, for 43,233 employees in moderate- or high-risk positions and determined that:

- A background investigation was completed on 40,180 employees (93 percent).
- An investigation was requested, but not yet completed, on 2,820 employees (6 percent). The majority of the investigations were completed within 24 months, but some took as long as 52 months.
- The remaining 233 employees (less than 1 percent) either were new hires that had not yet had an investigation requested, or were employees who had data in the SETS that appeared to be erroneous (e.g., a background investigation was shown as completed on a date in the future).

From our review of the 43,233 moderate- and high-risk employees, we determined that 3,753 employees met the IRS requirements for periodic background re-investigation. For these employees, the SETS information showed that:

- A current investigation that meets the IRS re-investigation requirements had been completed on 2,722 employees (73 percent).
- An investigation was in process on 867 employees (23 percent). The majority of the investigations were completed within 24 months, but some took as long as 52 months.
- The other 164 employees (4 percent) had not had an investigation completed in the last 5 years or did not have an investigation in process.

Therefore, the SETS information indicates that the PSO and the NBIC have assured that employee background investigations and re-investigations have generally been completed as required. However, follow-up actions are needed to assure investigations are completed or requested on the remaining employees due to the sensitive nature of the tax information handled by the IRS. The investigations

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

were not completed because there was no timely follow-up on all investigations, nor were there automatic controls to prevent the entry of obviously erroneous information. By not providing the PSO background investigation information on all contractors, the IRS is exposed to the potential of unauthorized use of information, theft of equipment, and physical harm to employees.

Recommendation

1. The Chief, AWSS, should ensure that follow-up actions are taken to initiate or complete background investigations on the employees without current, completed investigations; management reports are properly used to monitor timely completion of future background investigations; and SETS information is accurately recorded.

Management's Response: The Director, Personnel Services, will issue a memorandum to field Personnel Offices reiterating expectations in managing the Employee Background Investigation Program. The NBIC will monitor their business measures to ensure the timely completion of background investigations. The Associate Director, Personnel Security and Investigations, will continue a dialog with the Office of Personnel Management to ensure more timely results on out-sourced investigations.

Background Investigations on Contractor Employees Were Not Properly Completed

Department of the Treasury procedures provide guidelines for background investigations on contractor employees. The IRS' Security Investigation Standards provide procedures for completing background checks on contractor employees, including re-investigation every 5 years for sensitive positions and a verification of Federal tax filing history. IRS procedures provide that the REFM Office will issue identification badges to contractor employees upon receipt of a completed badge request form. This form should include the attachment of a memorandum from the PSO approving the contractor employee's access to IRS facilities based on a completed background investigation. Our review of the Contractor Employee Background Investigation Program identified several opportunities for

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

improvement that resulted from program responsibilities being divided among several IRS offices.

Contractor employee background investigations conducted are not properly controlled

The SETS database is used by the IRS to monitor the initiation, completion, and type of investigation conducted on contractor employees. The NBIC inputs information into the SETS database for the investigations that it completes. However, the database does not contain information on all contractor employees because investigation requests and the results of investigations completed by other government agencies are not being sent to the NBIC.

To quantify the number of contractor employees without background investigations in the SETS,¹ we compared the New Carrollton Federal Building (NCFB) identification badge database to the SETS database and determined that 2,166 (49 percent) of the 4,380 contractor employees who had been issued NCFB identification badges did not have any background investigation information in the SETS. We also attempted to obtain information on the contractor employees at IRS offices outside of Washington, D.C.; however, the IRS could not provide any information regarding the number of contractor employees and the completion of background investigations because the information is not maintained and managed by one IRS office.

Also, the AWSS organization does not perform any independent analyses, such as comparing the identification badge records to completed background investigations, to ensure that contractor employees authorized to enter IRS facilities have obtained proper clearance. Without the input of all contractor employee background investigation information into the SETS database and periodic reconciliation with the identification badge system, the PSO cannot effectively monitor the program and reduce the risk to IRS personnel and property. Furthermore, without

¹ The SETS contractor information contained data on 13,211 investigations dating back to 1994.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

adequate controls to monitor the completion of initial background investigations, the PSO cannot effectively track contractor re-investigations.

Contractor employee tax filing history is not being verified

IRS guidelines require a verification of contractor employee Federal tax filing, but this requirement cannot be verified by other agencies conducting background investigations because they do not have access to tax filing information. In addition, since the SETS does not contain background information on all contractor employees, it cannot be used to identify those contractors that require additional review by the PSO. As a result, management has no assurance that contractor employees with background investigations completed by other agencies have properly fulfilled their Federal tax filing requirements.

For contractor employee background investigations completed by the NBIC over the last 3 years, the PSO's review of contractor employee compliance with Federal tax filing requirements has resulted in delinquent taxes being paid, tax returns being filed, or some form of payment agreement being established totaling over \$1,000,000. We reviewed the Federal tax filing history, as of September 17, 2002, for the 2,166 contractor employees who were issued identification badges allowing access to the NCFB, but were not in the SETS database. The results of our analysis are presented in Table 1.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

Table 1: Contractor Employee Federal Tax Filing History

Contractor Employee Federal Tax Filing Status	Number of Contractor Employees	Number of Tax Returns	Amount of Revenue at Risk
Social Security Number (SSN) did not match the IRS records	79	N/A	N/A
SSN is invalid (e.g., too many digits or blank)	182	N/A	N/A
Contractor employee has not filed a return, and the IRS is inquiring about the status of the return	134	178	N/A
Contractor employee has filed a tax return but has not paid tax due	66	139	\$688,842
Contractor employee has not filed a tax return and has a credit balance	44	N/A	N/A
Contractor employee has filed a tax return and is making payments on an installment agreement	36	N/A	N/A
Contractor employee has properly filed tax returns and paid tax due	1756	N/A	N/A
<i>Total</i>	<i>2,297</i>	<i>317</i>	<i>\$688,842</i>

Source: The IRS' Master File and the Integrated Data Retrieval System.²

Note: The total of contractor employees is more than 2,166 because a contractor employee's tax account can be in more than 1 of the filing statuses listed (i.e., different tax years can be in a different status).

We determined that 134 contractor employees had not filed 178 tax returns, and 66 contractor employees were delinquent in paying \$688,842 on 139 tax returns (see Appendix IV). Unless all contractor employee background information is sent to NBIC, the PSO cannot effectively

² See Appendix V for definitions of Master File and the Integrated Data Retrieval System.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

monitor the program, assure tax-filing compliance, and protect revenue. Also, if contractor employees are not compliant with their Federal tax obligations, this could be an indication of their trustworthiness and raise concerns about whether they should be allowed to perform work for the IRS.

Contracting Officer Technical Representatives (COTR) are not requesting investigations from the NBIC as required

The Department of the Treasury COTR handbook states that the COTR is responsible for coordinating background investigations, as well as facility and system security clearances for contractor employees. However, a standard process for tracking the status of background investigations is not provided to COTRs to help them fulfill these responsibilities. As a result, COTRs have developed various methods to accept, monitor, and track the status of background investigations including spreadsheets, databases, or paper files, and there is no assurance that background investigations are being completed on all contractor employees.

To verify whether COTRs are requesting the NBIC to complete contractor employee background investigations, we judgmentally selected³ for review contractor employees working for contracting companies identified as Treasury Communications System (TCS) contractors or Treasury Information Processing Support Services (TIPSS) contractors. Procedures for administering the TCS and TIPSS contracts require background investigations to be completed by the NBIC. We determined that 2,235 of the 4,380 contractor employees with identification badges allowing access to the NCFB work for the TCS or TIPSS contracting companies. We compared identification badge information for these 2,235 contractor employees to the completed background investigation information at the NBIC and found 525 (23 percent) did not have background investigation information in the NBIC database. We did not

³ See Appendix I for the sampling methodology.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

determine the status of the background investigations for the remaining 2,145 contractor employees.

Not having information in the NBIC database is caused by COTRs not effectively coordinating background investigations with the NBIC. Personnel from the PSO and the REFM Office cited inadequate COTR training as a contributing cause for non-adherence to IRS procedures. To supplement the COTR handbook, personnel at the NBIC have provided informal IRS-specific training on occasion, but a formal training program focused on IRS requirements and procedures is not provided.

The Personnel Security Officer advised that IRS senior management granted a blanket authorization to 335 (all from 1 contracting company) of the 525 contractor employees, permitting them to obtain identification badges without a background investigation being initiated. These contractor employees were given access to various areas in and information of the IRS. Management advised us that they are now working to complete background investigations on the contractors that received this blanket authorization.

Providing blanket authorization to the employees of a contracting company violates Department of the Treasury policies and established IRS procedures requiring background investigations. Not adhering to established policies and inadequate training for the COTRs exposes the IRS to the potential of unauthorized use of information, theft of equipment, and physical harm to employees.

Identification badges are being issued without required background investigation documentation

IRS procedures provide that the REFM Office will issue identification badges to contractor employees upon receipt of a completed badge request. This should include a memorandum from the PSO approving the contractor employee's access to IRS facilities based on a completed background investigation. The REFM personnel responsible for the issuance of identification badges are, therefore, a control point to assure that required approvals

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

have been granted prior to issuance of an identification badge.

To assess the completeness of the documentation in the identification badge files, we reviewed the 4,380 contractor employees with NCFB identification badges and identified 777 contractor employees who worked for companies for which some but not all of the contractor employee background investigations were completed by the NBIC. The 777 contractor employees (including the 525 TIPSS and TCS contractors) did not have a record in the SETS database.

We judgmentally sampled 78 (10 percent) of these 777 contractor employees to determine if appropriate background investigation documentation had been provided with the badge request to the REFM personnel for the issuance of an identification badge. From our review of the documentation maintained by the REFM Office, we found:

- No documentation in the files for 58 (74 percent) of the contractor employees.
- An identification badge request in the files for 15 (19 percent) of the contractor employees, but the files did not include any background investigation information.
- Complete identification badge and background investigation information in the files for 5 (7 percent) of the contractor employees.

REFM management stated that missing documentation was caused by inadequate knowledge and training of personnel regarding the issuance of identification badges.

By not obtaining the required information before issuing a contractor employee an identification badge, the IRS increases the risk of potential misuse or unauthorized disclosure of taxpayer data, loss of equipment or data through theft or sabotage, and threats to the personal safety of IRS employees.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

Recommendations

The Chief, AWSS, in coordination with the PSO, the REFM Office, and the Procurement Office should ensure:

2. Policies and procedures are developed to ensure that contractor employee background investigations conducted by other government agencies (e.g., GSA) are provided to NBIC.

Management's Response: The PSO will prepare a memorandum for the Acting Commissioner's signature re-emphasizing the policy directing IRS Business Units to ensure that background investigations are conducted on contractors who require "staff-like" access to IRS information, systems, data or facilities, including those that have background investigations completed by other government agencies.

3. A COTR training supplement is developed to emphasize the IRS-specific background investigation requirements and COTR roles, responsibilities, and procedures.

Management's Response: The Procurement Office will coordinate with the PSO to develop an IRS-specific background investigation-training supplement. The supplement will be available to all IRS COTRs through the AWSS Procurement website. The Treasury Acquisition Institute will revise the Treasury-wide COTR training program to offer an IRS-specific component on background investigation requirements and procedures.

4. All contractor employees have properly filed their tax returns and paid their tax obligations.

Management's Response: Increased emphasis on contractor investigation requirements via the memorandum referenced in Recommendation 2 will increase required investigations by NBIC, including tax checks.

5. Background investigations are completed on active contractor employees that obtained identification badges without a background investigation.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

Management's Response: The REFM and NBIC, in conjunction with the Business Units/COTRs, will review enterprise data to ensure that contract employees with "staff-like" access have a background check. If necessary, COTRs will initiate the appropriate investigation requests. The REFM will require a copy of the PSO's interim or final access approval memorandum before issuing a badge to contractor employees. Management will contact COTRs to ensure contractor employees are verified every 6 months.

6. REFM personnel are adequately trained regarding the requirements for issuing a contractor employee an IRS identification badge.

Management's Response: The field facility offices must brief new security personnel on IRM procedures. AWSS will issue a memorandum to field offices emphasizing that newly hired security personnel must be trained on current badge issuance procedures. A self-study guide will be developed for new employees.

Several Systems Have Been Created to Supplement the Security Entry Tracking System

The Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, states that proper stewardship of Federal programs and operations should ensure that government resources are used efficiently and effectively to achieve intended program results.

The SETS database is a sub-system of the personnel payroll system and is used to track the completion of background investigations, fingerprints, and security clearances.

However, the SETS has constraints, including:

- Insufficient data fields to meet the needs of the IRS.
- No flexibility to change/update a data field, once the field contains data.

The Department of Agriculture has designated the SETS as a legacy application⁴ and, as such, any significant system improvements seem unlikely. Due to SETS constraints, two

⁴ Legacy systems and data are those that have been inherited from languages, platforms, and technologies earlier than current technology.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

additional stand-alone, non-integrated databases have been created at the NBIC to supplement the SETS. Within the Personnel Services organization, employees at NBIC input contractor employee information from the background investigation requests received into three databases: the SETS database, the NBIC Background Case database, and an NBIC administrative database for monitoring the program. These stand-alone databases are used to manage the inventory of investigation requests, to monitor the status of investigations being completed, and to track the administrative data associated with the request, such as by whom the request was submitted, the contract number, etc. While some of the information in these databases is distinct, many of the fields are duplicated.

The PSO advised that it is in the process of developing and testing a new system, the Automated Background Investigation System (ABIS), which management believes will be more flexible, will eliminate the duplicate effort at the NBIC, and will increase functionality with the stakeholders needing investigation information. The ABIS, which is scheduled for implementation in February 2003, will replace the NBIC Background Case database used to track background investigations.

In addition, the Office of Technical Contract Management (TCM) provides acquisition support to approximately 60 COTRs working in the AWSS Procurement organization. During its assessment of the processes followed by COTRs, the TCM decided to standardize the COTR process for requesting and monitoring background investigations by developing a standardized database called the Procurement Background Investigation Program (PBIP). The database is to be used by the 60 COTRs in the AWSS Procurement organization; however, there is no requirement that approximately 800 COTRs in the other Headquarters and Field Business Units use the database. The TCM discussed the PBIP development with the PSO, but there was no decision to develop a combined or integrated system, although the PBIP tracks some of the same information as the SETS and ABIS.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

Inadequate coordination and communication among the PSO, COTRs, and TCM have resulted in the development of multiple databases/systems without adequate consideration of system consolidation or integration. The TCM obtained contractor services for management information systems support, using two task orders for the development and maintenance of several databases, including the PBIP database. The total paid through November 1, 2002, on these task orders was \$671,865. The TCM did not provide detailed information from the first task order showing the costs directly attributable to the PBIP project; however, they estimated that \$301,175 of the \$580,133 paid was for the creation of the PBIP database. Information provided for the second task order indicates that \$37,865 of the \$91,732 paid was for work on the PBIP database. In addition, the second task order has a budgeted amount totaling \$491,148 to pay for additional work. Although no documentation was provided, the TCM advised us that \$30,000 of this amount is estimated for further development and maintenance on the PBIP database (see Appendix IV).

In addition, the TCM stated that the PBIP database is included in the Modernization, Information Technology, and Security (MITS) Services budget; however, the 4th Quarter FY 2002 MITS Business Performance Review does not include the PBIP database as a project, indicating the project is being developed outside the MITS investment process. Therefore, there is an increased risk that the database may not integrate into future IRS modernization plans and that the data may be inconsistently entered into the different systems, requiring correction. Further, it is inefficient to enter the same data into two different systems.

A centralized complete database of all contractors and contractor background investigations does not exist. As previously mentioned, the TCM database is used by a limited number of COTRs, and the NBIC does not receive information on all contractors so that the information can be input into SETS. Not having a central repository of complete data results in the inability of the PSO to efficiently administer the personnel security program.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

Recommendations

The Chief, AWSS, in coordination with the PSO, the REFM Office, and the Procurement Office should ensure that:

7. A consolidated or integrated system is implemented to effectively manage all background investigations and identification badges, incorporating the needs of all stakeholders (e.g., COTR, TCM, NBIC, etc.), and eliminating the use of stand-alone systems such as the SETS and PBIP.

Management's Response: AWSS will establish a stakeholder project team to assess background investigation program management. The team will prepare a business case analysis to focus on funding issues, improved communications with stakeholders, and information system enhancements.

8. In the interim, until a single system is implemented, all COTRs are required to use the PBIP regardless of their organizational placement, and complete periodic reconciliations between the contractor employee background investigation information and the identification badge information at each IRS facility to detect the issuance of contractor employee identification badges without completion of required background investigations.

Management's Response: The stakeholder project team and the business case analysis prepared in response to Recommendation 7 will address this recommendation.

Identification Badge System Information Is Not Complete and Accurate

The GAO *Standards for Internal Control in the Federal Government* require that controls be established and designed to ensure the completeness, accuracy, authorization, and validity of all transactions during application processing. Controls should be installed to ensure that all inputs are received and are valid, and that outputs are correct and properly distributed. An example of these controls is computerized edit checks that are built into the system to review the format, existence, and reasonableness of data.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

Our analysis of the identification badge system information for the 4,380 contractor employees with NCFB identification badges showed that 230 records (5 percent) contained data omissions or incorrect data for key pieces of information (e.g., SSN and Contractor Company Name). The SSN discrepancies included records with no SSN, SSNs containing all nines or zeros, and SSNs containing too many digits.

The erroneous data in the NCFB identification badge system was caused by not having application controls such as edit checks on the input of data. While not having application controls was found in our review of information from the identification badge application at the NCFB, AWSS personnel confirmed that this identification badge system is used elsewhere and application controls could be set similarly at other IRS field offices.

Data entry omissions, inconsistencies, and errors result in the inability to provide complete and reliable data regarding contractor badge information. Furthermore, these data problems make it difficult to reconcile the identification badge database information to other external databases, such as the SETS and the NBIC completed investigations database.

Recommendation

9. The Chief, AWSS, with the assistance of the Deputy Commissioner for Modernization & Chief Information Officer, should, until the system in Recommendation 7 is implemented, improve the systems application controls to ensure that all identification badge systems contain complete and accurate contractor employee information.

Management's Response: REFM will mandate that a standard set of data entry fields must be completed before issuing a contractor employee badge.

**Employee Background Investigations Were Normally
Completed; However, the Contractor Employee
Background Investigation Program Needs Improvement**

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine the effectiveness of the Background Investigation Program administration. To accomplish this objective, we:

- I. Evaluated the Internal Revenue Service's (IRS) policies and procedures for requesting and monitoring the status of IRS and contractor employee background investigations. In addition, we interviewed personnel responsible for the program and obtained a walk-through of the background investigation process.
- II. Determined whether employee background investigations and re-investigations were completed by obtaining a download of 120,344 employee records as of January 26, 2002, from the Treasury Integrated Management Information System to identify personnel in job series that are assessed at a high- and moderate-risk level. We determined that employees in 20 job series account for approximately 94 percent of the employees in moderate- and high-risk positions at the IRS. For these job series, we obtained and reviewed the background investigation data on 43,233 employee records in the Security Entry and Tracking System (SETS) as of April 25, 2002.
- III. Determined whether contractor employee background investigations and re-investigations were completed by:
 - A. Obtaining a download of all 13,211 contractor records in the SETS database on April 25, 2002, and comparing these records to the 4,380 contractor records obtained from the New Carrollton Federal Building identification badge system on March 7, 2002, resulting in the identification of 2,166 contractor employees who were issued badges allowing access to the IRS, but were not in the SETS. We also reviewed tax filing histories of these 2,166 contractor employees.
 - B. Identifying contracting companies from the Treasury Communications System and Treasury Information Processing Support Services contracts that required background investigations to be performed by NBIC resulting in the identification of 2,235 contractor employees as of April 25, 2002, and analyzing this population to determine whether background investigation information was properly recorded in the SETS. We also reviewed a judgmental sample of 78 (10 percent) of the 777 contractors that did not have information in the SETS to determine if adequate badge record documentation was retained. A judgmental sample was selected because we did not plan to project the results of our analysis.

**Employee Background Investigations Were Normally
Completed; However, the Contractor Employee
Background Investigation Program Needs Improvement**

Appendix II

Major Contributors to This Report

Scott E. Wilson, Assistant Inspector General for Audit (Information Systems Programs)
Gary Hinkle, Acting Assistant Inspector General for Audit (Information Systems Programs)
Danny Verneuille, Acting Director
Christopher Funke, Senior Auditor
Linda Screws, Auditor

**Employee Background Investigations Were Normally
Completed; However, the Contractor Employee
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Appendix III

Report Distribution List

Acting Commissioner N:C
Deputy Commissioner for Modernization & Chief Information Officer M
Chief, Agency-Wide Shared Services A
Chief, Information Technology Services M:I
Director, Personnel Services A:PS
Director, Procurement A:P
Director, Real Estate and Facilities Management A:RE
Associate Director, Personnel Security Division A:PS:PSO
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
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 Chief, Agency-Wide Shared Services A
 Program Manager, Program Oversight and Coordination M:R:PM:PO

**Employee Background Investigations Were Normally
Completed; However, the Contractor Employee
Background Investigation Program Needs Improvement**

Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Increased Revenue/Revenue Protection – Potential; \$688,842 in delinquent contractor accounts (see page 4).

Methodology Used to Measure the Reported Benefit:

We determined that 2,166 of the 4,380 contractor employees with identification badges allowing access to the New Carrollton Federal Building (NCFB) were not in the Security Entry Tracking System (SETS). To determine the Federal tax filing history for the 2,166 contractor employees, we entered their Social Security Numbers from the identification badge system into the Integrated Data Retrieval System¹ and extracted the tax accounts. We determined that 66 of the contractor employees were delinquent in paying \$688,842 on their tax accounts. Some of these accounts with a balance due date back to 1989.

We also identified 134 contractor employees who had not filed 178 tax returns. The IRS is inquiring about the status of these returns. These accounts currently do not have a balance due, but could result in additional revenue once appropriate information is obtained.

Type and Value of Outcome Measure:

- Protection of Resources – Actual; \$339,040 spent by the Office of Technical Contract Management (TCM) on the Procurement Background Investigation Program (PBIP) (see page 12).

Methodology Used to Measure the Reported Benefit:

The PBIP is being developed by the TCM to manage contractor employee background investigations while the Personnel Security Office (PSO) is in the process of developing the Automated Background Investigation System (ABIS). The PSO is responsible for the performance and management of background investigations through its National Background Investigation Center (NBIC). Since both the PBIP and ABIS are being developed to perform many of the same tasks, the contract costs expended and planned to be expended on the TCM development are unnecessary. As of November 1, 2002, estimates and detailed invoices

¹ See Appendix V for a definition of the Integrated Data Retrieval System.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

provided by TCM indicate that \$339,040 of the \$671,865 paid on various projects was for the PBIP development.

Resources expended on the TCM PBIP development:

\$ 37,865 detailed invoices paid for development and maintenance under the second task order.

\$301,175 estimated by TCM as paid for development and maintenance under the first task order.

\$339,040 Total

Type and Value of Outcome Measure:

- Cost Savings, Funds Put to Better Use – Potential; \$30,000 remaining to be spent for database development and maintenance (see page 12).

Methodology Used to Measure the Reported Benefit:

The PBIP is being developed by the TCM to manage contractor employee background investigations while the PSO is in the process of developing the ABIS. The PSO is responsible for the performance and management of background investigations through its NBIC. Since both the PBIP and ABIS are being developed to perform many of the same tasks, the contract costs expended and planned to be expended on the TCM development are unnecessary. The TCM advised that \$30,000 is anticipated for further development and maintenance on the PBIP database.

Type and Value of Outcome Measure:

- Taxpayer Privacy and Security – Potential; 2,166 contractors that do not have background information in the SETS (see page 4).

Methodology Used to Measure the Reported Benefit:

The IRS uses the Department of Agriculture's SETS as its background investigation information tracking database. Through our comparison of the NCFB contractor employee identification badge information to the SETS, we determined that 2,166 contractors issued an identification badge do not have information in SETS.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

Appendix V

Glossary of Terms

Agency-Wide Shared Services (AWSS)	AWSS provides services to the Internal Revenue Service (IRS) in the areas of procurement, diversity field services, real estate, facilities, and personnel.
Automated Background Investigation System (ABIS)	The ABIS is a database being developed by the Personnel Security Office to monitor and track the status of background investigations on both employees and contractor employees.
Contracting Officer's Technical Representative (COTR)	A qualified individual nominated by the requiring organization and designated by the Contracting Officer to monitor, evaluate, and accept contract services.
Contractor Employee	Refers to all non-federal employees working on an IRS contract, including all subcontractors requiring access to the facilities or information of the IRS.
Integrated Data Retrieval System (IDRS)	IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.
Master File	The IRS' database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
National Background Investigations Center (NBIC)	NBIC completes background investigations for the IRS. NBIC is under the direction of the Personnel Security Officer in AWSS.
Personnel Security Office (PSO)	The PSO is a division of the Personnel Services organization under AWSS. This office oversees the completion and adjudication of background investigations on employees and contractor employees.
Procurement Background Investigation Program (PBIP)	The PBIP is a database developed by the Office of Technical Contract Management to track information being sent and received by COTRs during the background investigation process, including the cost of the investigation request and the contract to which the investigation was requested.

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

Office of Technical Contract Management (TCM)	The TCM is within the Procurement Division of AWSS and provides assistance in planning, conducting, and managing information technology acquisitions.
Real Estate and Facilities Management (REFM)	REFM is a consolidated organization under AWSS designed to provide facilities services to the IRS.
Security Entry Tracking System (SETS)	SETS is a sub-system of the National Finance Center personnel payroll system and is used to track the completion of background investigations, fingerprint and security clearances for applicants, employees, volunteers, contractor employees and/or consultants.

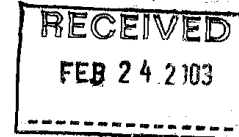
Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

Appendix VI

Management's Response to the Draft Report



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



February 20, 2003

MEMORANDUM FOR GORDON C. MILBOURN, III
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Gregory D. Rothwell *Gregory D. Rothwell*
Deputy Chief, Agency-Wide Shared Services

SUBJECT TIGTA Draft Audit Report: Employee Background Investigations Were Normally Completed; However, The Contractor Employee Background Investigation Program Needs Improvement, dated January 14, 2003 (Audit #200220009)

Agency-Wide Shared Services (AWSS) leadership is committed to addressing all recommendations raised in your report and resolving other issues pertaining to this program.

AWSS will establish a project team, with stakeholders from the Chief Information Officer organization, to evaluate current business practices (for contractor employees). We will issue a report in 120 days on our strategies for improving program processes and information systems capabilities. We designated our project team leader today and team activities should be underway shortly.

Attached is our response to the nine recommendations in the report. If you have additional questions, please contact me at (202) 622-7500. For matters addressing audit follow-up and liaison, please call Greg Rehak at (202) 622-3702.

Attachment

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

RECOMMENDATION 1: The Chief, AWSS, should ensure that follow-up actions are taken to initiate or complete background investigations on the employees without current, completed investigations; management reports are properly used to monitor timely completion of future background investigations; and Security Entry Tracking System (SETS) information is accurately recorded.

ASSESSMENT 1: The Director, Personnel Services, and the Associate Director, Personnel Security and Investigations, issued guidance to the Personnel Offices (which are responsible for initiating employee investigations) in April 2001 and September 2001 to ensure we:

- Proactively manage the background investigation process, and identify and address issues that surface
- Timely and accurately input SETS data
- Regularly execute and analyze SETS reports
- Follow-up on issues, as appropriate

The Personnel Security Office (PSO) conducted training in June 2002 for Background Investigation Coordinators and their managers to reinforce the above policy.

CORRECTIVE ACTION 1: The Director, Personnel Services will issue a memorandum to field Personnel Offices reiterating expectations in managing the Employee Background Investigation Program.

PROPOSED COMPLETION DATE: April 30, 2003

RESPONSIBLE OFFICIAL: Associate Director, Personnel Security and Investigations, AWSS

ASSESSMENT 2: The National Background Investigations Center (NBIC) has business measures and management reports that serve as follow-up on overage investigations. In many cases, we completed investigations timely, but did not close the cases in SETS because:

- Our investigation was complete and sent to Labor Relations (LR) for adjudication, but SETS input was not completed until LR fully adjudicated the case and returned it to NBIC.
- The case was out-sourced to the Office of Personnel Management (OPM) and they closed it pending completion of outstanding portions. NBIC will not process the investigation or consider the case closed in SETS until they receive all the outstanding portions, including OPM's Case Closing Transmittal, and the entire investigation is finalized.
- NBIC investigation was completed; however, NBIC was waiting for additional information from a source outside its control (e.g., National

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

2

Agency Check from OPM, Department of State overseas investigation, or CIA checks).

CORRECTIVE ACTION 2: NBIC will monitor its business measures to ensure timely completion of investigations. The Associate Director, Personnel Security and Investigations, will continue a dialogue with OPM and send a letter to OPM investigation officials requesting a method or process to ensure more timely results on investigations out-sourced to OPM.

PROPOSED COMPLETION DATE: April 30, 2003

RESPONSIBLE OFFICIAL: Associate Director, Personnel Security and Investigations, AWSS

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

3

RECOMMENDATION 2: The Chief, AWSS, in coordination with the PSO, the REFM Office, and the Procurement Office should ensure: Policies and procedures are developed to ensure that contractor employee background investigations conducted by other government agencies (e.g., GSA) are provided to NBIC.

ASSESSMENT: IRS has policy and procedures for accepting contractor employee background investigations that are conducted by other government agencies. The policy is outlined in IRM 1.23.2, Contractor Investigations, Section 2.2, Contractor Employees with Active Industrial Security Clearances; Section 8.1.2, DOD Industrial Clearance Verification Investigation; and Section 8.1.3, Conversion Investigation. TIGTA sampling found that prescribed guidelines were not followed.

IRS Business Units and their respective Contracting Officer Technical Representatives (COTRs) are responsible for ensuring that policy is followed and requests for contractor employee investigations are forwarded to NBIC. Local facility offices are responsible for ensuring that a badge sponsor has an interim or final access approval memorandum before authorizing issuance of an identification badge to a contractor employee.

CORRECTIVE ACTION: PSO will prepare a memorandum for the Acting Commissioner's signature re-emphasizing policy issued in October 2002, directing IRS Business Units to ensure that background investigations are conducted for contractor employees who require "staff-like" access to IRS information, systems, data or facilities, including those that have background investigations conducted by other government agencies.

PROPOSED COMPLETION DATE: April 30, 2003

RESPONSIBLE OFFICIAL: Associate Director, Personnel Security and Investigations, AWSS

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

4

RECOMMENDATION 3: The Chief, AWSS, in coordination with the PSO, the REFM Office, and the Procurement Office should ensure: A COTR training supplement is developed to emphasize the IRS-specific background investigation requirements and COTR roles, responsibilities, and procedures.

ASSESSMENT: All IRS COTRs receive training based on the Treasury COTR Handbook and receive applicable IRM 1.23.2 guidelines; however, the training does not emphasize specific IRS background investigation requirements and procedures.

CORRECTIVE ACTION: The Procurement Office will coordinate with the PSO to develop an IRS-specific background investigation-training supplement. The supplement will be available to all IRS COTRs through the AWSS Procurement website. The Treasury Acquisition Institute (TAI) is revising the Treasury-wide COTR training program to offer an IRS-specific component on background investigation requirements and procedures. TAI will offer the training in FY2004.

PROPOSED COMPLETION DATE: October 1, 2003

RESPONSIBLE OFFICIAL: Director, Procurement, AWSS

**Employee Background Investigations Were Normally
Completed; However, the Contractor Employee
Background Investigation Program Needs Improvement**

5

RECOMMENDATION 4: The Chief, AWSS, in coordination with the PSO, the REFM Office, and the Procurement Office should ensure: All contractor employees have properly filed their tax returns and paid their tax obligations.

ASSESSMENT: NBIC conducts tax checks of contractor employees for whom they receive investigation requests. Non-compliance results in denial of interim "staff-like" access and is addressed in the final access determination process. We offer the contractor employee an opportunity to file tax returns or pay all monies owed immediately or under a payment plan. Continued non-compliance results in a complete denial of access.

PSO issued a memorandum in February 2003 reiterating the policy of mandating tax compliance for contractor access to IRS facilities. The memorandum stated, "In terms of Federal tax obligations, "tax evasion" continues to be a "condition causing concern" in the Adjudication Guidelines, and a "zero-tolerance" policy continues to be in effect. The subject must have filed all tax returns, paid any delinquent taxes due, or be actively participating in a payment plan to be approved for "staff-like" access on any IRS contract."

CORRECTIVE ACTION: We will increase our emphasis on contractor investigation requirements via memorandum referenced in Recommendation 2. As a result, we expect that NBIC will conduct more investigations and tax checks.

PROPOSED COMPLETION DATE: April 30, 2003

RESPONSIBLE OFFICIAL: Associate Director, Personnel Security and Investigations, AWSS

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

6

RECOMMENDATION 5: The Chief, AWSS, in coordination with the PSO, the REFM Office, and the Procurement Office should ensure: Background investigations are completed on active contractor employees that obtained identification badges without a background investigation.

ASSESSMENT: We need to re-emphasize the procedures in IRM 1.16.4, Chapter 2 to ensure that information provided to REFM by COTRs or Business Units is accurate.

IRS Business Units and their respective COTRs are responsible for ensuring that policy is followed and requests for contractor employee investigations are forwarded to NBIC. Local facility offices are responsible for ensuring that a badge sponsor has an interim or final access approval memorandum before authorizing issuance of an identification badge to a contractor employee.

Before issuing an ID card, field facility offices will require a copy of the PSO interim or final access approval memorandum. This requirement will serve as validation of a completed background investigation. IRM 1.16.4, Chapter 2, requires COTRs to verify contract employees every six months

CORRECTIVE ACTION 1: REFM will require a copy of the Personnel Security's interim or final access approval memorandum before issuing a photo identification badge to contractor employees. To ensure compliance, REFM Program Review Teams will review contract employee files to verify that proper documentation is maintained. This requirement has been incorporated in FY2003 review checklist.

PROPOSED COMPLETION DATE: April 30, 2003

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, AWSS

CORRECTIVE ACTION 2: REFM and NBIC, in conjunction with the Business Units/COTRs, will review enterprise data to ensure that contract employees with "staff-like" access have an NBIC background check. If necessary, require COTRs to initiate the appropriate investigation requests for those contractors needing access privileges.

PSO will complete an action plan by the first quarter of FY2004 to address investigative requirements and budget issues for initiating and completing additional contractor background investigations.

PROPOSED COMPLETION DATE: September 30, 2003

RESPONSIBLE OFFICIALS:

Associate Director, Personnel Security and Investigations, AWSS

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

7

Director, Real Estate and Facilities Management, AWSS

CORRECTIVE ACTION 3: Contact field facility offices to ensure that COTRs verify contract employees every six months.

PROPOSED COMPLETION DATE: April 30, 2003

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, AWSS

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

8

RECOMMENDATION 6: The Chief, AWSS, in coordination with the PSO, the REFM Office, and the Procurement Office should ensure: REFM personnel are adequately trained regarding the requirements for issuing a contractor employee an IRS identification badge.

CORRECTIVE ACTION 1: Field facility offices must brief new security personnel on IRM procedures. We will issue a memorandum to field offices emphasizing that newly hired security personnel must be trained on current badge issuance procedures.

PROPOSED COMPLETION DATE: April 30, 2003

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, AWSS

CORRECTIVE ACTION 2: REFM will incorporate the above requirement into the IRM (see Recommendation 5) and develop a self-study guide for new employees.

PROPOSED COMPLETION DATE: June 30, 2004

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, AWSS

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

9

RECOMMENDATION 7: The Chief, AWSS, in coordination with the PSO, the REFM Office, and the Procurement Office should ensure that: a consolidated or integrated system is implemented to effectively manage all background investigations and identification badges, incorporating the needs of all stakeholders (e.g., COTR, TCM, NBIC, etc.), and eliminating the use of stand-alone systems such as the SETS and PBIP.

ASSESSMENT: We use several systems to manage the background investigation process because no one system provides the requisite functionality.

CORRECTIVE ACTION: AWSS will establish a stakeholder project team to assess background investigation program management. The team will prepare a business case analysis focusing on funding issues, improved communications with stakeholders, and information system enhancements. Selected options will depend on FY2005 budget/resource planning efforts.

PROPOSED COMPLETION DATE: September 30, 2005

RESPONSIBLE OFFICIAL: Chief, Agency-Wide Shared Services, IRS

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

10

RECOMMENDATION 8: The Chief, AWSS, in coordination with the PSO, the REFM Office, and the Procurement Office should ensure that: In the interim, until a single system is implemented, all COTRs are required to use the PBIP regardless of their organizational placement, and complete periodic reconciliations between the contractor employee background investigation information and the identification badge information at each IRS facility are conducted to detect the issuance of contractor employee identification badges without completion of required background investigations.

ASSESSMENT: Procurement's Office of Technical Contract Management developed the Procurement Background Investigation Process (PBIP) as a pilot to assist COTRs in the Procurement organization. IRS COTRs outside the Procurement organization do not have PBIP access. The business case analysis by the AWSS Project Team, discussed in Recommendation 7, will determine if PBIP should be expanded for agency-wide use.

CORRECTIVE ACTION: Completion of Recommendation 7 will complete Recommendation 8.

PROPOSED COMPLETION DATE: September 30, 2005 (See Recommendation 7)

RESPONSIBLE OFFICIAL: Chief, Agency-Wide Shared Services, IRS

Employee Background Investigations Were Normally Completed; However, the Contractor Employee Background Investigation Program Needs Improvement

11

RECOMMENDATION 9: The Chief, AWSS, with the assistance of the Deputy Commissioner for Modernization & Chief Information Officer, should, until the system in Recommendation 7 is implemented, improve the systems application controls to ensure that all identification badge systems contain complete and accurate contractor employee information.

CORRECTIVE ACTION: REFM will mandate that a standard set of data entry fields must be completed (no data fields left blank) before issuing a contractor employee badge.

PROPOSED COMPLETION DATE: September 30, 2003

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, AWSS