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

COMMISSIONER

October 16, 2000

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MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: for Charles O. Rossotti Bob Wenzel
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report -- The Internal Revenue Service Should Take Additional Actions to Protect Taxpayer Remittances

We appreciate the opportunity to respond to your draft report entitled "The Internal Revenue Service Should Take Additional Actions to Protect Taxpayer Remittances." Before addressing your specific recommendations, I would like to share some concerns we have about the information in the Executive Summary of your report. This audit report says between January 1995 and July 1997 thefts of taxpayer remittances totaling over $5.3 million were investigated. We note that a third of the cases comprising the $5.3 million did not involve IRS employees. The report also says that current information regarding thefts was not available. However, current information is available from the TIGTA, Office of Investigations, which is responsible for investigating embezzlements of tax payments. Their office maintains current information about the number of potential and actual thefts/embezzlement.

In Fiscal Year (FY) 1999, TIGTA conducted an audit entitled "Additional Emphasis Is Needed to Identify and Resolve Thefts of Taxpayer Payments" (Audit No. 199940108). In this audit, they identified that the TIGTA, Office of Investigations, received reports of 54 potential thefts in FY 1999. Only 12 of the 54 potential thefts were determined to be stolen payments from Submission Processing Centers and Lockbox sites.

The TIGTA, Office of Investigations, reports 6 cases of embezzled payments involving $1,603 from the Submission Processing Centers for FYs 1999 and 2000 (to date). This illustrates an actual loss ratio of payments to receipts processed in the Submission Processing Centers of .0000016 percent.

Thank you for recognizing the actions we have taken to improve physical security and internal controls over taxpayer remittances. We have also taken these additional actions:

- Procured live scan fingerprint equipment to participate in the FBI's Integrated Automated Fingerprint Identification System, thus severely shortening the length of time for obtaining fingerprint check results.

- Established connectivity from service center host site personnel offices to Office of Personnel Management's (OPM) Personnel Investigations Processing System to expedite the receipt of case closing transmittals on fingerprint checks.

- Implemented a policy to fingerprint filing season applicants as early as possible in the job application process.

- Provided refresher training to employees who take fingerprints to reduce the number of fingerprints that cannot be classified.

Our comments on the specific recommendations in this report are as follows:

IDENTITY OF RECOMMENDATION/FINDING 1
The Chief Operations Officer should ensure that physical security over remittances at all IRS service centers meets applicable requirements. He should work with Agency-Wide Shared Services (AWSS) to ensure that high priority is given to providing slab-to-slab walls or intrusion detection devices in all remittance processing areas, and that doors entering the spaces are locked with appropriate locking devices.

ASSESSMENT OF CAUSE(S)
The Director, Real Estate and Facilities Management (REFM), maintains data on the physical security status of the restricted areas within the service centers. According to REFM records, Philadelphia was the only service center that did not meet IRM requirements regarding restricted areas. However, this data was collected several years ago, and realignment of space within the service centers may have affected the restricted areas.

CORRECTIVE ACTION(S)
The Directors, Submission Processing in the new Operating Divisions, and REFM will jointly work this issue. They will assess the physical security status of restricted areas in the service centers and develop a plan to correct deficiencies.

IMPLEMENTATION DATE
PROPOSED: October 1, 2001

RESPONSIBLE OFFICIAL(S)
Director, Real Estate and Facilities Management; AWSS
Director, Submission Processing, W&I and SB/SE Divisions

FUTURE BUSINESS OWNER(S)
Director, Real Estate and Facilities Management; Commissioner, W&I Division; and Commissioner, SB/SE Division

CORRECTIVE ACTION(S) MONITORING PLAN
To be developed when survey is completed and information analyzed.

IDENTITY OF RECOMMENDATION/FINDING 2
The Chief, AWSS, should issue and enforce guidelines requiring security guards to respond to all intrusion alarms in secured areas.

ASSESSMENT OF CAUSE(S)
On two separate occasions, a TIGTA auditor entered areas containing taxpayer remittances without being detected. Security guards did not respond to motion sensors because they thought the janitors had set them off.

CORRECTIVE ACTION(S)
IRM 1.16.8, Section 4.10.1(3)(b), requires guards to respond to an intrusion detection alarm within 15 minutes. We believe the incident addressed in the report is an isolated incident. However, the Director, Real Estate and Facilities Management, will issue a memorandum to Facilities Management staffs to enforce these standards through their local guard contracts.

IMPLEMENTATION DATE
PROPOSED: December 1, 2000

RESPONSIBLE OFFICIAL(S)
Director, Real Estate and Facilities Management, AWSS

FUTURE BUSINESS OWNER(S)
Director, Real Estate and Facilities Management, AWSS

CORRECTIVE ACTION(S) MONITORING PLAN
Director, Real Estate and Facilities Management will test check guards response to intrusion alarms at least twice a year.

IDENTITY OF RECOMMENDATION/FINDING 3
Because the decision not to use surveillance cameras was based on limited and sometimes inaccurate information, the EOSCO should re-evaluate the option of installing surveillance cameras to monitor staff when they are opening, extracting, and sorting mail and processing remittances.

ASSESSMENT OF CAUSE(S)
None - The IRS determined that surveillance cameras would not effectively deter theft.

CORRECTIVE ACTION(S)
None. The IRS requires outside business entities that process remittances for the IRS (known as Lockbox sites) to have functioning surveillance cameras. The Lockbox sites do not perform the same functions as the service centers and do not have the same security. Our service centers have layered security - at the fence line, at the doors, and at the restricted area. We also have management controls in place.

Our Security, Evaluation and Oversight Office looked at the security operations of casinos in three cities. They have cameras focused on all tables and slot machines. The cameras only record events. They are not watched unless a casino employee sends a warning to watch a particular area. Their systems include routers, switches, cameras, and monitors.

For surveillance cameras to be effective at the service centers, they need to be focused on each work area. Because the work is spread over a large amount of the space, the number of cameras and monitors required for each service center would be enormous. Staff would be needed to constantly watch the monitors as well. Installation of surveillance cameras would also reduce our flexibility to move space or furniture within space.

OMB Circular A-123, Attachment II, Establishing Management Controls, states, "To help ensure that controls are appropriate and cost-effective, agencies should consider the extent and cost of controls relative to the importance and risk associated with a given program." The $1,603 of losses reported in FYs 1999 and 2000 and the 12 cases reported by TIGTA in 1999 do not justify the expense of cameras.

The TIGTA report acknowledged the actions we have taken to reduce our risk of theft. We will continue to refine our deterrent strategy, as TIGTA informs us how employees are removing remittances from the service centers.

IMPLEMENTATION DATE
None

RESPONSIBLE OFFICIAL(S)
None

FUTURE BUSINESS OWNER(S)
None

CORRECTIVE ACTION(S) MONITORING PLAN
None

IDENTITY OF RECOMMENDATION/FINDING 4
The EOSCO should ensure that all Remittance Processing functions receive and implement guidelines for door monitors.

ASSESSMENT OF CAUSE(S)
The EOSCO issued guidelines for door monitors; however, only one of the seven Remittance Processing areas TIGTA reviewed had copies of the current EOSCO guidelines.

CORRECTIVE ACTION(S)
IRM 1.16.8, Section 4.5 addresses access to restricted areas. In addition, on March 22, 1999, EOSCO sent a memorandum to the Service Center Directors providing them with documents furnished by REFM that could be used as both a desk guide and training tool for door monitors. EOSCO and REFM have just recently completed updating Document 6406, Security Orientation Guide, and developed Document 6406A, Restricted Area Monitor Guide. These documents should be issued in October 2000, in time for new employee orientation, which begins in November.

When the updated Security Orientation Guide and new Restricted Area Monitor Guide are published, Directors, Submission Processing of the new Operating Divisions will send a memorandum to the Submission Processing Center Directors to ensure the guides are provided to the appropriate personnel.

IMPLEMENTATION DATE
PROPOSED: December 1, 2000

RESPONSIBLE OFFICIAL(S)
Director, Submission Processing, W&I Division and SB/SE Division

FUTURE BUSINESS OWNER(S)
Commissioner, W&I Division; and Commissioner, SB/SE Division

CORRECTIVE ACTION(S) MONITORING PLAN
None

IDENTITY OF RECOMMENDATION/FINDING 5
The EOSCO should ensure that cleaning personnel have access to Remittance Processing areas only when IRS personnel are present.

ASSESSMENT OF CAUSE(S)
In both of the IRS service centers included in the TIGTA review, management was unaware that janitors had access to Remittance Processing areas before or after regular duty hours.

CORRECTIVE ACTION(S)
IRM 1.16.8.5.3.1(2)(c) states that secured areas must be cleaned during duty hours or in the presence of a regularly assigned employee. REFM will notify the Facilities Management Staffs to make sure contract cleaning of these areas is coordinated with service center management to ensure compliance with the IRM. The Directors, Submission Processing of the new Operating Divisions will issue a memorandum to the Submission Processing Center Directors reminding them of this requirement as well.

IMPLEMENTATION DATE
PROPOSED: December 1, 2000

RESPONSIBLE OFFICIAL(S)
Director, Real Estate and Facilities Management; AWS; and Director, Submission Processing, W&I and SB/SE Divisions

FUTURE BUSINESS OWNER(S)
Director, Real Estate and Facilities Management; Commissioner, W&I Division; and Commissioner, SB/SE Division

CORRECTIVE ACTION(S) MONITORING PLAN
None

IDENTITY OF RECOMMENDATION/FINDING 6
As previously agreed to, the Assistant Commissioner (Forms and Submission Processing) should ensure that unmatched checks are stored in locked containers until they can be researched and processed for deposit.

ASSESSMENT OF CAUSE(S)
Unmatched checks are researched and processed in the Receipt and Control area of the service center, which is a secured area. Only authorized employees have access. A representative of Forms and Submission Processing performs an annual, unannounced security review at all 10 service centers. During the security review, we pay close attention to the correct handling of unmatched checks.

CORRECTIVE ACTION(S)
The Directors, Submission Processing of the new Operating Divisions will draft and forward a memorandum to the Submission Processing Service Center Directors reinforcing the importance of storing unmatched checks in a secure area.

IMPLEMENTATION DATE
PROPOSED: January 2001

RESPONSIBLE OFFICIAL(S)
Directors, Submission Processing, W&I & SB/SE Divisions

FUTURE BUSINESS OWNER(S)
Commissioner, W&I Division; and Commissioner, SB/SE Division

CORRECTIVE ACTION(S) MONITORING PLAN
A representative of Submission Processing will continue to perform annual, unannounced security reviews at all 10 service centers.

IDENTITY OF RECOMMENDATION/FINDING 7
The Assistant Commissioner (Forms and Submission Processing) should either train Remittance Processing personnel to properly stamp all returned refund checks "non-negotiable" as soon as they are removed from envelopes, or develop an alternate method to reduce the vulnerability of returned refund checks to theft.

ASSESSMENT OF CAUSE(S)
A January 1, 2000, IRM update directed the service centers to overstamp returned refund checks "non-negotiable" upon extraction. Feedback from the service centers indicated these procedures were resulting in the erroneous overstamping of many negotiable third party checks; therefore, we developed an alternate method. On May 4, 2000, an Information Alert (HQ-IA-210) was issued directing the service centers to place all returned refund checks in a designated bin upon extraction. The Lead/Manager will determine if the check should be overstamped and then stamp accordingly.

CORRECTIVE ACTION(S)
None

IMPLEMENTATION DATE
None

RESPONSIBLE OFFICIAL(S)
None

FUTURE BUSINESS OWNER(S)
None

CORRECTIVE ACTION(S) MONITORING PLAN
None

IDENTITY OF RECOMMENDATION/FINDING 8
As previously agreed to, the Assistant Commissioner (Forms and Submission Processing) should ensure that taxpayer remittances discovered outside Remittance Processing areas are immediately documented on Form 4287 and maintained in secured containers until they are delivered to the Deposit function.

ASSESSMENT OF CAUSE(S)
In 1999, the National Director, Submission Processing, issued a memorandum to all Service Center Processing Chiefs, emphasizing the importance of storing all discovered remittances in a secure place until they can be delivered to the deposit area. Also, a supervisor must complete Form 4287 as each remittance is discovered.

CORRECTIVE ACTION(S)
The memorandum will be reissued to reemphasize the importance of following the guidelines for handling discovered remittances. The contents of the memorandum will be discussed in filing season training for the service centers.

IMPLEMENTATION DATE
PROPOSED: January 1, 2001

RESPONSIBLE OFFICIAL(S)
National Director, Submission Processing; and Directors, Submission Processing, W&I and SB/SE Divisions

FUTURE BUSINESS OWNER(S)
Commissioner, W&I Division; and Commissioner, SB/SE Division

CORRECTIVE ACTION(S) MONITORING PLAN
None

IDENTITY OF RECOMMENDATION/FINDING 9
Because fingerprint pre-screening procedures are not effective for juvenile job applicants, the Director, Personnel Services, AWSS, should develop a process to help screen out questionable juvenile applicants for remittance processing jobs.

ASSESSMENT OF CAUSE(S)
There are mitigating circumstances involving the release of records for questionable juvenile applicants.

CORRECTIVE ACTION(S)
The Personnel Policy Division, Director, Strategic Human Resources, has started reviewing regulations at 5 CFR Part 731 – Suitability, and discussing with OPM a policy consistent with applicable law and regulation that offices can use to screen out questionable juvenile applicants. Since this issue involves juveniles, and there are mitigating circumstances involving the release of records for questionable applicants, we will also coordinate with General Legal Services on this matter. We will then issue a policy that serves the needs and protects the interests of the IRS as well as the applicant, and inform the Director, Personnel Services, AWSS, to issue operating guidelines to field Personnel Offices.

IMPLEMENTATION DATE
PROPOSED: January 1, 2001
(Contingent upon receipt of General Legal Services' opinion regarding obtaining the disposition of fingerprint results for juveniles).

RESPONSIBLE OFFICIAL(S)
Director, Personnel Policy Division, Strategic Human Resources

FUTURE BUSINESS OWNER(S)
Director, Personnel Services, AWSS

CORRECTIVE ACTION(S) MONITORING PLAN
Management Control reviews by the Director, Strategic Human Resources

IDENTITY OF RECOMMENDATION/FINDING 10
The Director, Personnel Services, AWSS, should provide guidelines establishing consistent minimum standards necessary for job applicants to be hired in remittance processing functions.

ASSESSMENT OF CAUSE(S)
All of the IRS service centers do not have the same consistent high standards when preparing an objection document for OPM's adjudication. OPM supplements to 5 CFR regulations on suitability are for government jobs in general; therefore, the IRS needs more specific, higher standards for applicants in Remittance Processing.

CORRECTIVE ACTION(S)
The Personnel Policy Division will review current guidance and practices, along with applicable laws and regulations, for example 5 CFR 731 and OPM guidance, to establish a policy for minimum standards for job applicants in Remittance Processing. In addition, we will consult with the appropriate business units to determine minimum standards for Remittance Processing applicants. We will then issue policy and guidance to the business units and Personnel Offices, which will enable them to hire employees who meet minimum standards consistent with the needs of the business, but within applicable laws for suitability.

IMPLEMENTATION DATE
PROPOSED: January 1, 2001

RESPONSIBLE OFFICIAL(S)
Director, Personnel Policy Division, Strategic Human Resources

FUTURE BUSINESS OWNER(S)
Director, Personnel Services, AWSS

CORRECTIVE ACTION(S) MONITORING PLAN
Management control reviews by Director, Strategic Human Resources

If you have any questions, please call Jimmy L. Smith, Acting Executive Officer for Service Center Operations, at (513) 684-6333.