

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Former Contractor Employees Retained Access to IRS Facilities, Systems, and Equipment

September 18, 2024

Report Number: 2024-100-063

Why TIGTA Did This Audit

The IRS uses contractor employees to fill a variety of positions including those requiring staff-like access. The IRS uses HRConnect, the Department of the Treasury's human resource and personnel system, to manage and track onboarding and separation data associated with its contractor employees. The system contains a Separation Contractor Clearance record, which is used to separate a contractor employee from a contract or task order as well as to document the return of all security items, including assigned badges, credentials, or similar items, containing the IRS name, seal, or symbol, used to provide access to the IRS network or facilities.

This audit was initiated to assess the effectiveness of controls over the removal of former contractor employee access to IRS facilities, systems, and equipment upon separation.

Impact on Tax Administration

When the IRS does not separate contractor employees when required and retrieve issued security items and identification media, it increases the risk of unauthorized entry to IRS facilities and workspaces, potentially endangering employees.

In addition, by not recovering security items and computers, the IRS increases the risk of former contractor employees improperly accessing IRS systems and sensitive taxpayer information. Unrecovered computers also represent a financial loss to the IRS.

What TIGTA Found

The IRS stated that as of March 2024, it had 25,871 active contractor employees. During Fiscal Year 2023, 6,838 contractor employees were separated (ceased working on an IRS contract). However, the IRS did not always remove contractor employees' access to IRS facilities, systems, and equipment when the contractor employees were no longer assigned to an ongoing contract.

Our review of the 18,454 contractor employees listed as active on HRConnect as of April 2023 identified 1,821 (10 percent) former contractor employees who should have been listed as separated because they were no longer assigned to an ongoing contract. In September 2023, the IRS stated that it was in the process of cleaning up HRConnect to address expired contracts and task orders and the associated former contractor employees still appearing as active. However, TIGTA's review of this effort found that only 51 percent of the contractor employees reviewed were subsequently listed as separated as of January 2024.

Further, as of October 2023, 63 of the 1,821 former contractor employees had not returned their assigned identification media allowing access to an IRS facility, of which 13 had active IRS network access. In addition, 17 of the 1,821 former contractor employees had not returned their assigned IRS computer hardware.

In addition, the IRS did not always document contractor separation actions as required. From October 1, 2021, through January 31, 2023, 10,628 contractor employees separated from the IRS. In 12 of 20 contractor employee separations reviewed, the Contracting Officer's Representative (COR) either did not complete or partially documented completing the required contractor separation actions.

In April 2024, the IRS initiated a contractor onboarding/off-boarding reengineering project to address overreliance on the manual input of information into HRConnect and the lack of a comprehensive automated framework in the contractor employee onboarding and off-boarding process. The IRS also developed additional training for the CORs related to onboarding and off-boarding contractor employees.

What TIGTA Recommended

TIGTA recommended that the IRS Human Capital Officer should require the ongoing periodic review of: 1) contractor employees' status in HRConnect to identify instances where contractor employees (designated as active) are not assigned to an ongoing contract, and in such instances notify the CORs to take appropriate actions, and 2) contractor employee separation actions performed by the CORs.

The IRS agreed and stated that it has turned on an HRConnect feature to support timely separation of contractors and plans to quality review contractor employee separation actions.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20024

September 18, 2024

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in cursive script, reading "Danny R. Verneuille".

FROM: Danny R. Verneuille
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Former Contractor Employees Retained Access to
IRS Facilities, Systems, and Equipment (Audit No.: 202310026)

This report presents the results of our review to assess the effectiveness of controls over the removal of former contractor employee access to Internal Revenue Service (IRS) facilities, systems, and equipment upon separation. This review is part of our Fiscal Year 2024 Annual Audit Plan and addresses the major management and performance challenge of *Protection of Taxpayer Data and IRS Resources*.

Management's complete response to the draft report is included as Appendix III. If you have any questions, please contact me or Bryce Kisler, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

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Background

The Internal Revenue Service (IRS) uses contractor employees to fill a variety of positions, including those requiring staff-like access.¹ For example, a significant portion of contractor employees support the IRS's Information Technology organization, *e.g.*, application development and network services. According to the IRS, it had 25,871 active contractor employees as of March 2024. The IRS also advised us that during Fiscal Year 2023, 6,838 contractor employees were separated (ceased working on an IRS contract). The IRS uses HRConnect, the Department of the Treasury's human resource and personnel system, to manage and track onboarding and separation data associated with its contractor employees. The system contains a Separation Contractor Clearance (SCC) record, which is used to separate a contractor employee from a contract or task order as well as to document the return of all security items.² Within HRConnect, there are three modules that also help manage and track the contractor life cycle activities. These modules are the:

- Contractor Management Module, which contains all contract and task order information related to contractor employees, including onboarding and separation information.
- Contingent Worker Module, which contains all individual contractor employee data and assigned Government-furnished equipment. This module is used for data additions or changes related to an individual contractor.
- Personal Identity Verification Data Synchronization Security Processing Module, which manages Federal and contractor employees' identity data throughout their employment life cycle from onboarding to separation.

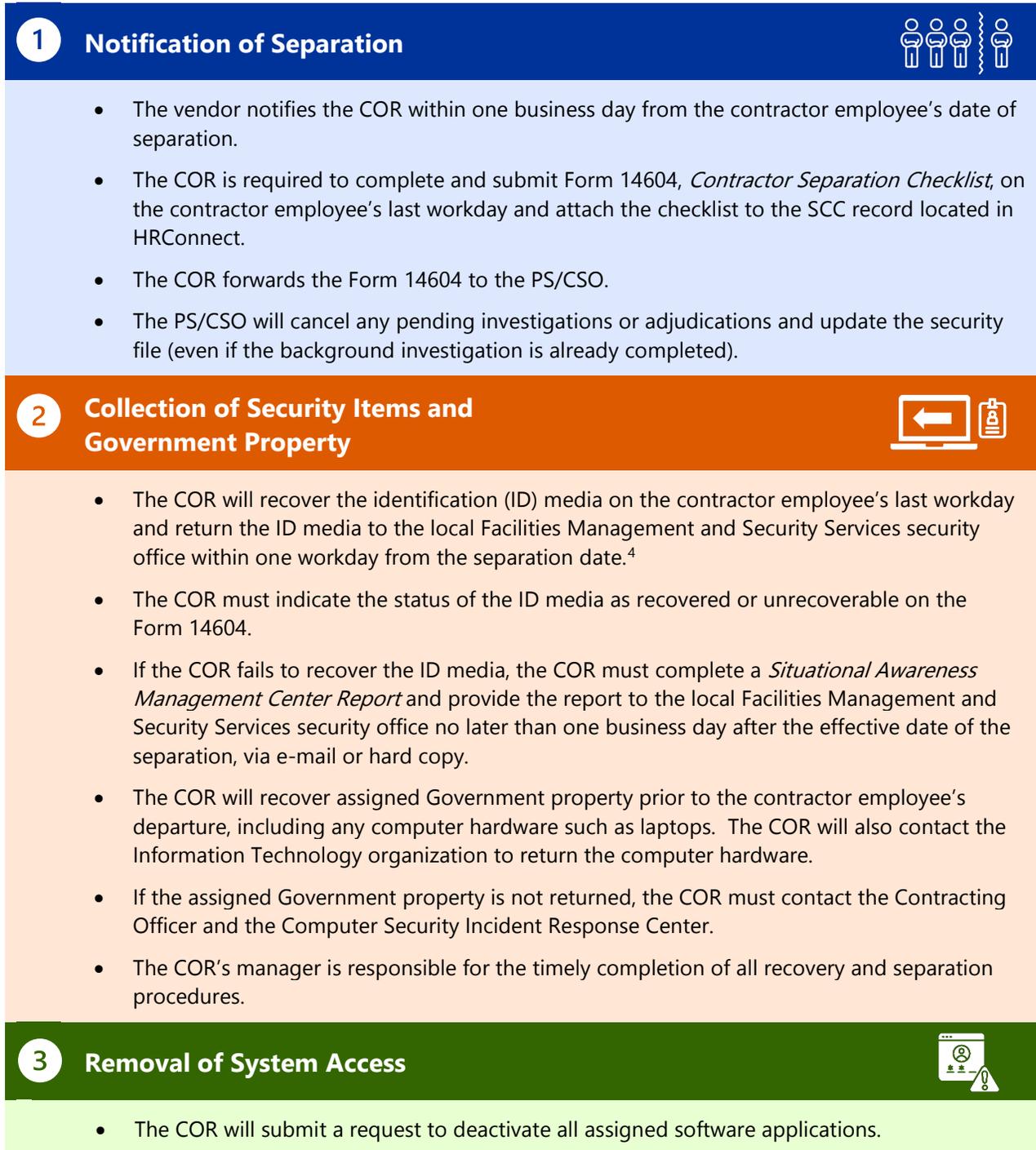
HRConnect is managed within the IRS by the Human Capital Office (HCO). The HCO is also the policy owner for guidance related to the contractor background investigation process, which includes procedures related to contractor separations. Within the HCO's Talent Acquisition Division, the Personnel Security Branch-Contractor Security Office (PS/CSO) has responsibility for contractor background investigations. In July 2022, the IRS began shifting the responsibility for entering contractor life cycle data in HRConnect from HCO personnel to Contracting Officer's Representatives (COR).³ The contractor employee separation process is initiated by the COR who coordinates with the PS/CSO, the Facilities Management and Security Services function, and the Information Technology organization to complete the required separation process steps; this includes the recovery and return of security items and Government-furnished equipment. Figure 1 illustrates the IRS's contractor employee separation process.

¹ Staff-like access is defined as contractor personnel who have unescorted access to IRS facilities, properties, information systems, and sensitive but unclassified information.

² Security items include assigned badges, credentials, or similar items, containing the IRS name, seal, or symbol, which is normally issued to and displayed by the bearer to provide access to the IRS network or facilities.

³ The CORs represent the requesting IRS functional office and are designated and authorized by the Contracting Officer to perform various contract administration activities.

Figure 1: Contractor Employee Separation Process



Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the Internal Revenue Manual covering the contractor employee separation process.⁵

⁴ Internal Revenue Manual 10.2.5.1.6, *Terms, Definitions and Acronyms* (Mar. 11, 2024), defines ID media as any pass, badge, credential, photo or non-photo ID card, pocket commission, or similar items, which contain the IRS name, seal, or symbol, that is normally issued to and displayed by the bearer.

⁵ Internal Revenue Manual 10.23.2.16, *Separating Contractor Employees* (Apr. 29, 2019) and 10.2.5.7, *Recovery of ID Media* (Mar. 11, 2024).

Results of Review

Some Former Contractor Employees Retained Access to IRS Facilities, Systems, and Equipment

The IRS did not always remove contractor employees' access to IRS facilities, systems, and equipment when the contractor employees were no longer assigned to an ongoing contract. As of April 2023, HRConnect indicated that there were 18,454 active contractor employees. Our review of the 18,454 contractor employees identified 1,821 (10 percent) former contractor employees who should have been listed as separated because they were no longer assigned to an ongoing contract. IRS guidance requires the CORs to enter a contractor separation action in HRConnect and recover any ID media and Government property on the contractor employee's last workday. The COR must complete Form 14604 and forward it to the PS/CSO. The CORs use Form 14604 to separate contractor employees from a contract, document the return of security items and Government property, and ensure that items issued to the contractor employee are returned to the appropriate office.

Our analysis of the 1,821 former contractor employees inaccurately listed as active, identified that as of October 2023:

- 63 of the 1,821 former contractor employees still had not returned their assigned ID media (SmartID or Physical Access Card).⁶ A SmartID provides the contractor employee with access to an IRS facility and is used as part of the authentication process in accessing the IRS network. A Physical Access Card provides the contractor employee with access to an IRS facility. In addition, 13 of the 63 former contractor employees had both an assigned SmartID and active IRS network access permissions. Further, 12 of those 13 former contractor employees also had access to IRS information technology systems containing sensitive data such as Federal Tax Information or Personally Identifiable Information.
- 2 of the 1,821 former contractor employees had active IRS network access permissions but did not have an assigned SmartID. Neither of these former contractor employees had access to the IRS information technology systems containing sensitive data.

⁶ As of October 5, 2023, the contractor employees were not assigned to an ongoing contract, and there was no record in HRConnect that the ID media was returned.

- 17 of the 1,821 former contractor employees still had not returned assigned IRS computer hardware, such as laptops or tower computers.⁷ In addition, 11 of the 17 also had an assigned SmartID. The IRS advised us the cost of the unreturned computer hardware items is \$110,574.

Figure 2 lists the instances of former contractor employees identified with retaining their assigned ID media or computer hardware after the end of the contract, as of October 2023.⁸

⁷ As of October 5, 2023, the former contractor employees were not assigned to an ongoing contract, and there was no record in HRConnect that the computer hardware was returned. In June 2024, IRS management advised us that their records indicated as of October 2023 only six of the 17 contractor employees still had equipment which needed to be returned, citing that the laptops were returned, or that the contractor employees were assigned to another active contract. However, IRS management was unable to provide us with sufficient evidence to verify this assertion. Specifically, in cases where IRS management identified the laptops as returned, they did not provide any documentation identifying the specific date of return or who certified that the item was returned. Similarly, in cases where IRS management asserted that the contractor employee was assigned to an active contract as of October 2023 and therefore needed the equipment, they were unable to provide any reliable evidence such as an assignment record in HRConnect. IRS management further advised us that as of June 2024, only three former contractor employees still had equipment which needed to be returned. Due to time constraints, we were unable to evaluate this assertion.

⁸ We were unable to assess whether 299 of the 1,821 former contractor employees had ID media, system access, or computer hardware because the IRS was unable to identify the contractor employee identification number used to track them.

Figure 2: Former Contractor Employees With System Access Not Removed and ID Media and Computer Hardware Not Returned After Contract End (as of October 2023)⁹

Credential or Hardware Type	Former Contractor Employee Instances
ID Media	
Assigned SmartID only	49
Assigned Physical Access Card only	12
Assigned SmartID and Physical Access Card	2
Total ID Media	63
Computer Hardware	
Assigned SmartID and assigned a laptop/tower computer	11
Assigned a laptop/tower computer but does not have an active SmartID	6
Total Computer Hardware	17
SmartID and System Access	
Access includes sensitive systems	12
Access does not include sensitive systems	1
Total Active Smart ID and System Access	13
System Access without SmartID	
Access includes sensitive systems	0
Access does not include sensitive systems	2
Total System Access without SmartID	2

Source: TIGTA analysis of information maintained on HRConnect and the Business Entitlement Access Request System and review of IRS contract data.

In September 2023, IRS management advised us that they were in the process of cleaning up HRConnect to address expired contracts and task orders and the associated former contractor employees still appearing as active. Our review of this effort in January 2024 found that the IRS made some progress in its HRConnect cleanup. Specifically, we reviewed a statistically valid random sample of 72 of the 1,821 former contractor employees we previously identified who should have been separated from the IRS because they were no longer assigned to an ongoing contract. We found that only 37 (51 percent) contractor employees reviewed were subsequently listed as separated as of January 2024. When projected to the population, we estimate that 936 contractor employees were subsequently separated.¹⁰ In February 2024, we also reviewed the 13 former contractor employees with active SmartIDs and system access after the contract ended and found that two contractor employees still inappropriately retained IRS network access.

⁹ The same contractor employee may appear in more than one category.

¹⁰ Our sample was selected using a 90 percent confidence interval, a 50 percent error rate, and a ±10 percent precision factor. When projecting the results of our statistical sample, we are 90 percent confident that the actual total amount is between 752 and 1,118.

In March 2024, the IRS provided us with updated information on the cleanup process and stated that it had initiated a Rapid Improvement Opportunity project to perform further analysis and cleanup of active contractor data in HRConnect. This Rapid Improvement Opportunity project plan includes a comparison of active contract information in the IRS's procurement tracking system to information in HRConnect to identify any missing data. The project plan also includes steps to evaluate contractors' system and building access. Finally, the HCO and Office of the Chief Procurement Officer developed additional training for the CORs related to onboarding and off-boarding contractor employees. The IRS advised us that it had planned to provide the training to the CORs from March to June 2024.¹¹

However, the IRS does not have an effective control environment to ensure that the CORs were completing contractor separation actions timely. For example, the HCO has not implemented an automated review of contractor employees' status in HRConnect to identify instances where contractor employees, designated as active, are not assigned to an ongoing contract and therefore should have been separated from the IRS. Without this type of control, it is impossible for the HCO to readily identify and address instances where required separation actions are not being timely completed and avoid the need for cleanup efforts. In April 2024, we were told that the IRS initiated a contractor employee onboarding/off-boarding reengineering project. The purpose of this project is to address overreliance on the manual input of information into HRConnect from the CORs and the lack of a comprehensive automated framework in the contractor employee onboarding and off-boarding process. The reengineering project subject matter expert team was expected to present recommendations for process improvements by July 2024.

When the IRS does not properly separate contractor employees and retrieve the issued security items and ID media, it increases the risk of unauthorized entry to IRS facilities and workspaces, potentially endangering IRS employees. In addition, by not recovering security items and computers, the IRS increases the risk of former contractor employees improperly accessing its systems and sensitive taxpayer information. Unrecovered computers also represent a financial loss to the IRS.

Recommendation 1: The IRS Human Capital Officer should require the ongoing periodic review of contractor employees' status in HRConnect to identify instances where contractor employees (designated as active) are not assigned to an ongoing contract and therefore, should have been separated from the IRS. This should also include notifying the assigned COR and providing a deadline to update the contractor employees' status information, if inaccurate, or separate the contractor employee. Separation of the contractor employee should include deleting system access as well as retrieving ID media and Government-furnished equipment, as applicable.

Management's Response: The IRS agreed with this recommendation and has turned on an HRConnect feature to support timely separation of contractor employees. This feature provides the COR with e-mail notifications at 30, 60, and 90 days before the end of the contract or task order. The IRS will also turn on another HRConnect feature that

¹¹ In June 2024, the IRS provided an update on actions taken or planned because of the Rapid Improvement Opportunity project. Due to the timing, we were unable to verify the impact of the implemented enhancements. We plan to conduct a follow-up review of the IRS's efforts to improve processes to remove contractor employees' access to IRS facilities, systems, and equipment upon separation.

will automatically separate contractor records 30 days after the contract or task order end date if the contractor is not active on any other contract. The COR will receive an e-mail with a deadline for completing the contractor separating actions, including documenting the retrieval of all IRS issued equipment and identification and access media.

Contracting Officer's Representatives Did Not Document Completion of All Required Contractor Separation Actions

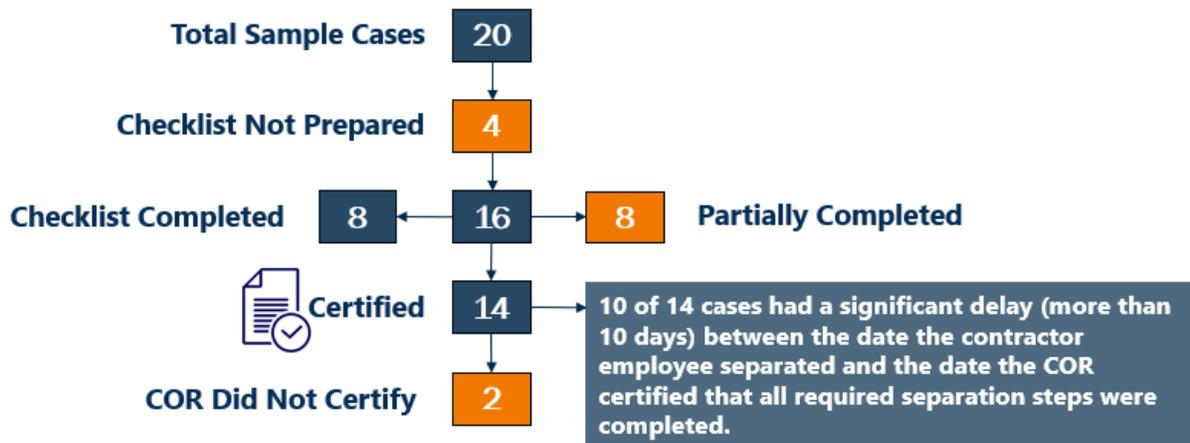
The IRS did not always document contractor separation actions as required. From October 1, 2021, through January 31, 2023, 10,628 contractor employees separated from the IRS. As previously discussed, the COR must complete Form 14604 to initiate separation actions for contractor employees. Form 14604 is used to document the return of security items and Government property as well as ensure that items issued to the contractor employee are returned to the appropriate office. The CORs are required to certify on Form 14604 that all security items and property were returned by the contractor employee as required and then upload the form to HRConnect after completion.

We reviewed a judgmental sample of 20 contractor employee separations and found that four Forms 14604 were not prepared and there were eight others where the required documentation was only partially completed.¹² For example, the CORs did not always upload documentation to HRConnect, or did not provide complete information on the return of security items. In the remaining eight cases, a Form 14604 was prepared and uploaded to HRConnect.

In addition, for the requirement to certify that contractor employees returned all security items and Government property, the CORs certified Form 14604 in 14 cases that all required separation actions were completed and in two cases the CORs did not certify Form 14604. Figure 3 provides the issues identified in our review of Form 14604 for the 20 judgmentally sampled contractor employee separations.

¹² A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

Figure 3: Issues Identified With the Contractor Separation Checklists



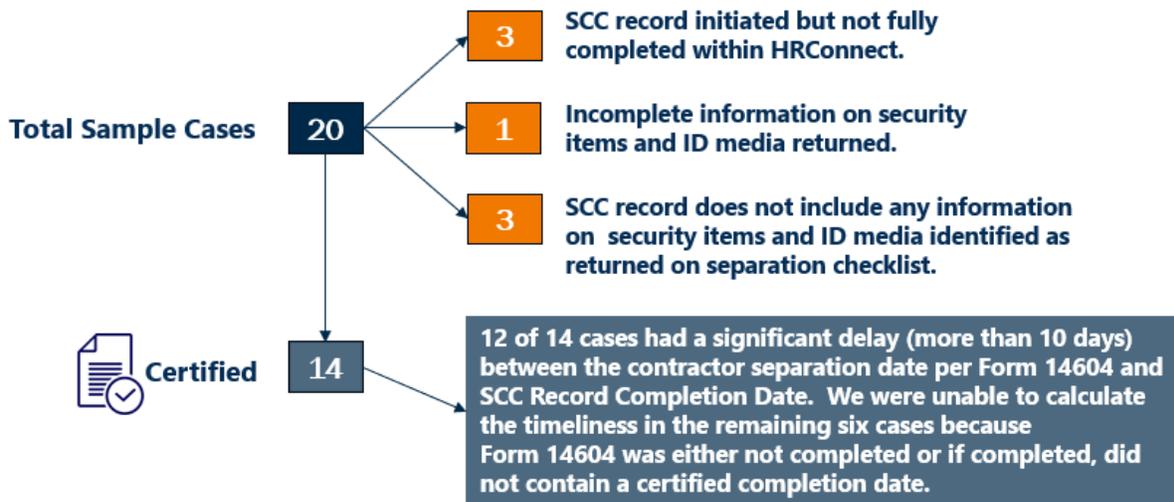
Source: TIGTA analysis of the separation actions taken for a judgmental sample of 20 former contractor employees.¹³

IRS policy also requires the COR to complete an SCC record for separating contractor employees.¹⁴ The SCC record in HRConnect, like Form 14604, documents the return of all security items and Government property as well as helps ensure that all items issued to the contractor employee are returned to the appropriate office. We reviewed the SCC records for the same 20 judgmentally sampled contractor employee separations and found that the CORs did not fully complete the SCC record, or the returned security items listed in the SCC record did not match the information on the attached Contractor Separation Checklist. Figure 4 provides the issues identified in our review of the SCC records for the 20 judgmentally sampled contractor employee separations.

¹³ Out of the eight partially completed Forms 14604, seven were not uploaded to HRConnect. HCO staff was able to provide the missing checklists after the audit team’s request. Some cases contained more than one type of error. Three of the partially completed Forms 14604 also had incomplete information on security items and ID media returned. Examples include the serial number of the returned item was missing and the date of return was not specified.

¹⁴ HRConnect COR Desk Guide (March 2022).

Figure 4: Issues Identified With the Completion of SCC Records



Source: TIGTA analysis of the separation actions taken for a judgmental sample of 20 former contractor employees.¹⁵

We found that none of the 20 sampled separated contractors were still assigned IRS computer equipment or ID media.

The IRS does not perform a periodic quality review of separation actions to ensure that the CORs are accurately completing and documenting all required separation steps on Form 14604 or ensuring that the Form is uploaded to HRConnect. The HCO also does not perform a periodic quality review of separation actions to ensure that the CORs are completely and accurately documenting all required separation steps on the SCC record in HRConnect.

As noted previously, the IRS initiated a reengineering project to revamp the contractor employee onboarding and off-boarding process. As a part of this project, the HCO and the Office of the Chief Procurement Officer have developed additional training for the CORs related to onboarding and off-boarding contractor employees.

Missing or incomplete documentation of the required contractor employee separation steps, specifically those involving the return of security items and computer equipment, could result in the separated contractor employee’s continued ability to access IRS facilities and systems, the potential permanent loss of any IRS equipment assigned to the contractor employee, and inaccurate management information which is used to provide oversight.

Recommendation 2: The IRS Human Capital Officer should require the ongoing periodic quality review of contractor employee separation actions performed by the CORs to ensure that they 1) timely prepare and submit Form 14604, 2) complete all steps specified on the Form, and 3) document all required separation steps in the SCC record.

Management’s Response: The IRS agreed with this recommendation and will have the Chief Operating Officer’s Transformation Program Management Office design and

¹⁵ Out of the 20 contractor employee separations reviewed, 14 SCC records were initiated and completed in HRConnect. The remaining six SCC records were initiated but were not fully completed in HRConnect or contained errors. Some cases may contain more than one type of error.

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manage an on-going and periodic quality review conducted by a multi-functional stakeholder team for compliance and timeliness of contractor employee separation actions performed by the CORs.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the effectiveness of controls over the removal of former contractor employee access to IRS facilities, systems, and equipment upon separation.

To accomplish our objective, we:

- Obtained an understanding of the IRS's contractor employee separation process by reviewing IRS policies and procedures and interviewing select IRS personnel.
- Determined if the IRS has implemented effective controls over contractor employee life cycle activities, including contractor separation, by reviewing the population of all contractor employees listed as active as of April 2023 and identifying contractor employees who should have been listed as separated and no longer active.
- Assessed whether any of the current contractor employees who should have been listed as separated and no longer active retained their ID media, system access, or computer hardware.
- Reviewed a statistically valid random sample of 72 out of the 1,821 former contractor employees who should have been listed as separated and no longer active on an IRS contract to determine whether any updates resulting from the HRConnect cleanup were made to the status of these employees as of January 2024. Our sample was selected using a 90 percent confidence interval, a 50 percent error rate, and a ± 10 percent precision factor. TIGTA's contract statistician assisted with developing the sampling plan and reviewing the projections.
- Determined if the IRS documented the contractor employee separation actions, including the removal of system access as well as the return of ID media and all assigned Government property for a judgmental sample of 20 out of the 10,628 contractor employees who separated from the IRS between October 1, 2021, and January 31, 2023.¹ We limited our sample to 20 separated contractor employees based on available resources and because it was sufficient to show the control weaknesses associated with the contractor employee separation process.

Performance of This Review

This review was performed with information obtained from the HCO and Information Technology organization in Washington, D.C., during the period February 2023 through June 2024. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

Major contributors to the report were Bryce Kisler, Assistant Inspector General for Audit (Management Services and Exempt Organizations); LaToya George, Director; Anthony Choma, Audit Manager; Carolyn deGuzman, Lead Auditor; and Dina Ponce Reyes, Auditor.

Data Validation Methodology

We performed tests to assess the reliability of the data from HRConnect. We evaluated the data by 1) performing electronic testing of required data elements, 2) reviewing existing information about the data and the system that produced them, and 3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: controls over the timely removal of former contractor employee access to IRS facilities, systems, and equipment. We evaluated these controls by interviewing key personnel, reviewing applicable policies and procedures, and analyzing the HRConnect cleanup effort. We also reviewed data relating to the population of all current contractor employees as of April 2023. Finally, we reviewed the separation actions for a judgmental sample of 20 former contractor employees.

Appendix II

Outcome Measures

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

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 1,821 former contractor employees who had inaccurate information in HRConnect (see Recommendation 1).

Methodology Used to Measure the Reported Benefits:

Our review of the 18,454 contractor employees listed as active on HRConnect as of April 2023 identified 1,821 (10 percent) former contractor employees who should have been listed as separated in HRConnect because they were no longer assigned to an ongoing contract.

Type and Value of Outcome Measure:

- Protection of Resources – Potential; IRS computer hardware, including laptops and tower computers, with a cost of \$110,574 that were not returned upon contractor employees' separations from the IRS (see Recommendation 1).

Methodology Used to Measure the Reported Benefits:

We found that 17 of the 1,821 former contractor employees, who should have been listed as separated in HRConnect because they were no longer assigned to an ongoing contract, still had unreturned IRS computer hardware, including laptops and tower computers. The cost of the unreturned items is \$110,574.

Management's Response: The IRS generally agreed that implementing the corrective actions will protect IRS resources by ensuring proper documentation of the receipt of IRS computer equipment following the separation of IRS contractor employees. However, the IRS disagreed with the outcome measure related to the protection of resources for IRS computer hardware with a cost of \$110,574, because all but three laptops were accounted for. Of those, the IRS has filed a Computer Security Incident Response Center report on one laptop and expects the other two laptops back shortly. Accordingly, the cost of the unreturned items is currently \$2,100 and should be approximately \$700 shortly. One contractor represented 82 percent of the total inadequately documented equipment; the IRS issued \$90,818 of specialized equipment to that contractor, and that contractor continues to have and use that equipment on a current IRS contract.

Office of Audit Comment: Although the IRS disagreed with the dollar value of our outcome measure, at the time of our review the dollar value for the missing computer hardware was correct. We acknowledge that the IRS provided supporting documentation for the cases where it identified the computer hardware as returned, however, the evidence provided was not sufficient. Specifically, the IRS did not provide

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documentation identifying the date of return or who certified that the items were returned. In the case where the IRS stated that one contractor represented 82 percent of the inadequately documented equipment, the IRS was unable to provide verifiable evidence in HRConnect to show that the contractor was assigned to an active contract.

Appendix III

Management's Response to the Draft Report



CHIEF OPERATING OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

August 25, 2024

MEMORANDUM FOR DANNY R. VERNEUILLE
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM Melanie R. Krause Melanie R. Krause
Chief Operating Officer Krause

Digitally signed by Melanie R. Krause
Date: 2024.08.25 14:36:12 -04'00'

SUBJECT Draft Audit Report – Former Contractor Employees Retained Access to IRS Facilities, Systems, and Equipment (Audit no. 202310026)

Thank you for the opportunity to review and comment on the draft audit report. The IRS takes the protection of taxpayer information and of IRS data, facilities, and systems very seriously, and we are grateful for the audit team's evaluation of the IRS's offboarding of contractors. Your work helped us to identify problems with our contractor records and our processes and procedures for separating contractor employees. We cleaned up a lot of the records during the audit; and with respect to the equipment for which you were unable to identify timely and complete documentation, near the end of the audit we reduced the outstanding equipment to three laptop computers. Of those, one is the subject of a CSIRC report, and two are being returned. However, we recognize that we have more work to do to improve our controls over this important process. Much of that work is under way, and we have asked TIGTA to include revisiting our contractor offboarding processes in your Annual Audit Plan for Fiscal Year 2025 (FY 25), preferably in the second half of FY 25, after we implement our planned improvements.

As you noted in the report, during the audit, our Human Capital Office (HCO) began working to improve the quality of contractor data in the HRConnect system, and we augmented that work with a Rapid Improvement Event project to compare the HRConnect contract information against IRS contract information maintained in the Office of the Chief Procurement Officer (OCPO). That work identified contractors who were no longer working for the IRS and for whom we had insufficient documentation that we had removed their network and system access or for whom we had inadequate documentation that we had retrieved IRS equipment, identification media, and access media assigned to the individual contractors. The work also identified contractors who moved on to other IRS contracts and who properly retained network and system access and IRS equipment and identification and access media but whose records did not properly reflect their continuing work on those other IRS contracts.

Our contractor separation documentation is better now than it was at the beginning of the audit process, but now the IRS must maintain the integrity of that data in real time. To that end, as you mentioned in your report, the IRS HCO and OCPO developed new IRS-specific training for Contracting Officer Representatives (CORs). We are pleased

to report that all the CORs working active contracts at the IRS have completed this new, mandatory training. We are requiring this new training and the training on using the Contractor Management Module in the HRConnect system as pre-requisites to nominating a COR for a new contract assignment. Only properly trained CORs will take on new IRS contracts.

Our contractor onboarding/offboarding reengineering project identified opportunities for improving our controls and processes. In addition to process efficiencies, we expect to implement other program improvements in FY25, such as: developing a centralized controls, guidance and policy repository for CORs and their managers; adding automation and system enhancements/notifications to decrease or eliminate processing and uploading steps; improving Contractor reports; developing a single ticket system for a suite of contractor on- and offboarding ticket actions with escalation procedures; developing a targeted communication and outreach strategy for CORs and their managers; and expanding topics and capability in the CORs' Help Desk tool.

We agree with your first recommendation: to require periodic reviews of contractor employees' status in HRConnect to identify instances where contractors designated as active are not assigned to an ongoing contract and to notify the CORs to take appropriate action. As noted in the planned corrective actions attachment, to support timely contractor deactivation, we have added features to HRConnect to notify CORs of pending contract and task order end dates. In September, we will activate an HRConnect feature to automatically separate contractor records 30 days after a contract or task order ends when contractors are not on another contract and the COR hasn't timely deactivated them. Separation in HRConnect triggers automatic revocation of IRS network access and access to most IRS downstream systems.

We also agree with your second recommendation: to require ongoing periodic review of contractor employee separation actions taken by the CORs. One action already implemented is HCO providing a weekly separated contractor list to our Facilities Management and Security Services (FMSS) division. Within a business day of receipt, FMSS removes the contractor's access to IRS facilities and deactivates their IRS identification and access media. Once we turn on the September HRConnect feature, CORs will receive an email specifying remaining required offboarding actions. Additionally, we are standing up a new team to review all contractor separations and ensure that we timely separated those contractor employees, timely removed their network and system accesses, and timely recovered all identification and access materials and IRS equipment assigned to them.¹ This team will work with the CORs and their managers to follow up with the contractor employees on retrieving any missing items and to perfect any missing or incomplete documentation.

We agree with your outcome measure that we had many former contractor employees who had inaccurate information in HRConnect. However, we are confident that, during

¹ Upon separation of a contractor employee in HRConnect, IRS IT automatically removes network access and most system access rights. Some system access removals require manual action and may take more time than the automated network and system access removals, but IRS systems cannot be accessed without network access.

the audit, we updated our HRConnect records to accurately reflect the status of contractors who should have been separated. We look forward to your reevaluating this data when you return in the second half of FY 2025.

We agree that at the outset of the audit, it appeared that the IRS had failed to recover computer hardware assigned to contractor employees that cost over \$110,000. However, during the audit (and particularly at the end of the audit), through non-HRConnect evidence and documentation, we demonstrated that we recovered nearly all of that equipment. One contractor with specialized equipment with a value of \$90,818 accounted for a majority of the value of the apparently missing hardware. That contractor retains the equipment and is working on an active contract. Of the 17 former contractor employees identified as not having returned assigned IRS computer equipment as of October 2023, our evidence showed:

- 4 returned their equipment in October 2023 or earlier;
- 1 contractor record was reported inaccurately; the IRS never assigned equipment to that contractor, and the laptop at issue is appropriately assigned to an IRS employee with the same name;
- 5 contractors retained their equipment and are actively assigned to current contracts (including the \$90,818 in equipment discussed above);
- 4 contractors' equipment was recovered subsequent to October 2023;
- 2 contractors' equipment is in the possession of the vendor point of contact and will be returned; and
- 1 contractor failed to return a laptop, and we filed a CSIRC report on that unaccounted laptop; we recovered one laptop from this separated contractor but did not retrieve a second laptop the IRS had assigned to that contractor.

We are pleased to report that the value of 3 unrecovered laptops is now less than \$2,100, and we expect to receive two of them shortly from the vendor point of contract mentioned above. We appreciate that we provided our supporting documentation for our recovery of much of that equipment very late in the audit process and that we may not have provided sufficient time to evaluate our documentation while you were drafting this report. We also recognize that our CORs had not properly documented the receipt of the equipment. Our new training and internal auditing of separation actions will improve both retrieval and documentation going forward. We look forward to your evaluating a new sample of contractors when you return in 2025 and anticipate your finding significantly improved documentation for separated contractors.

Thank you again for helping us to identify ineffective internal controls and opportunities to improve our separation process for contractor employees, specifically including removing their access to IRS networks and systems and retrieving IRS equipment, identification media, and access media. If you have any questions, please contact me at (202) 317-3950, or a member of your staff may contact David Skinner, Attorney-advisor to the Chief Operating Officer, at (202) 317-5240.

RECOMMENDATION 1:

The IRS Human Capital Officer should require the ongoing periodic review of contractor employees' status in HRConnect to identify instances where contractor employees (designated as active) are not assigned to an ongoing contract and therefore, should have been separated from the IRS. This should also include notifying the assigned COR and providing a deadline to update the contractor employees' status information, if inaccurate, or separate the contractor employee. Separation of the contractor employee should include deleting system access as well as retrieving ID media and Government furnished equipment, as applicable.

CORRECTIVE ACTION:

The IRS agrees with this recommendation.

In July 2024, the IRS turned on an HRConnect feature to support timely separation of contractors. This feature provides the COR with email notifications 30, 60, and 90 days before the end date of the Contract/Task Order. Additionally, the CORs have access to a 30, 60, 90 day contract/task order end date report they can utilize for planning purposes.

In September 2024, the IRS will turn on another HRConnect feature to automatically separate contractor records 30-days after the Contract/Task Order end date if the contractor is not active on any other contract. This feature will catch contractors whose CORs did not timely separate them. Separation in HRConnect automatically triggers termination of access to the IRS network and to most downstream systems. The COR will also receive an email with a deadline for completing contractor separating actions, including documenting the retrieval of all IRS issued equipment and identification and access media.

IMPLEMENTATION DATE:

October 31, 2024

RESPONSIBLE OFFICIAL:

Human Capital Officer

RECOMMENDATION 2:

The IRS agrees with this recommendation.

The IRS Human Capital Officer should require the ongoing periodic quality review of contractor employee separation actions performed by the CORs to ensure that they 1) timely prepare and submit Form 14604, 2) complete all steps specified on the Form, and 3) document all required separation steps in the SCC record.

CORRECTIVE ACTION:

The Chief Operating Officer's Transformation Program Management Office (COO TPMO) will design and manage an on-going and periodic quality review conducted by a multi-functional stakeholder team for compliance and timeliness of contractor employee separation actions performed by the CORs.

IMPLEMENTATION DATE:

March 31, 2025

RESPONSIBLE OFFICIAL:

Director, COO TPMO

OUTCOME MEASURES:

The IRS agrees that implementing the corrective actions will improve the reliability of IRS' contractor records.

The IRS agrees generally that implementing the corrective actions will protect IRS resources by ensuring we recover and properly document the receipt of IRS computer equipment following the separation of IRS contractors. We disagree with the \$110,574 value of IRS hardware protected, because we have accounted for all but three laptops. Of those, we have filed a CSIRC report on one laptop, and we expect the other two laptops back shortly. Accordingly, the cost of the unreturned items is currently \$2,100 and should be approximately \$700 shortly. (As noted in the management response, one contractor represented 82% of the total inadequately documented equipment; the IRS issued \$90,818 of specialized equipment to that contractor, and that contractor continues to have and use that equipment on a current IRS contract.)

Appendix IV

Abbreviations

COR	Contracting Officer's Representative
HCO	Human Capital Office
ID	Identification
IRS	Internal Revenue Service
PS/CSO	Personnel Security Branch-Contractor Security Office
SCC	Separation Contractor Clearance
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,
contact our hotline on the web at www.tigta.gov or via e-mail at
oi.govreports@tigta.treas.gov.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**

Information you provide is confidential, and you may remain anonymous.