



*Opportunities Exist to Reduce  
Lockbox Fingerprinting Costs*

**April 26, 2012**

**Reference Number: 2012-10-040**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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## HIGHLIGHTS

### OPPORTUNITIES EXIST TO REDUCE LOCKBOX FINGERPRINTING COSTS

## Highlights

**Final Report issued on April 26, 2012**

Highlights of Reference Number: 2012-10-040 to the Internal Revenue Service Human Capital Officer.

### IMPACT ON TAXPAYERS

To ensure lockbox banks can process large amounts of taxpayer payments received at their locations, lockbox banks must hire sufficient staff when needed with cleared background investigations. Lockbox bank employees are not allowed to begin working until the bank receives confirmation from the IRS that the employee has passed a limited background investigation based on a successful fingerprint check. TIGTA determined that opportunities exist to reduce fingerprinting costs at lockbox bank locations. Effective cost management is especially important given the current economic environment and the focus on efficient spending in the Federal Government.

### WHY TIGTA DID THE AUDIT

This review was requested by the IRS and addresses the major management challenge of Erroneous and Improper Payments and Credits. The overall objective of this review was to determine whether the IRS is accurately billed for the cost of fingerprinting contractors who work in IRS lockbox operations.

### WHAT TIGTA FOUND

TIGTA determined that opportunities exist to reduce fingerprinting costs at various IRS lockbox bank locations. For example, an excessive number of potential lockbox bank employees are being fingerprinted. TIGTA estimated that the three lockbox banks reviewed unnecessarily fingerprinted 6,646 lockbox bank employees, resulting in \$161,165 in excessive charges. TIGTA also identified that fingerprinting charges were paid for the same individuals in more than 1,000 instances in the same fiscal year, resulting in nearly \$25,000 in unnecessary costs.

Another area for potential cost savings involves the high use of manual fingerprinting at one lockbox bank. TIGTA determined that if electronic fingerprinting was fully used at this lockbox bank, the IRS could have saved approximately \$14,000 in Fiscal Years 2009 and 2010. Because of these opportunities, TIGTA believes the IRS could have potentially saved 40 percent of the \$496,953 in fingerprinting charges for the three lockbox banks reviewed in Fiscal Years 2009 and 2010.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS Human Capital Officer 1) perform an annual assessment of the number of staff needed at each lockbox bank to ensure fingerprinting charges are not excessive, 2) evaluate the feasibility of requiring lockbox banks to maintain logs of individuals fingerprinted, 3) develop a process requiring IRS personnel to periodically review and analyze fingerprint billing data, 4) clearly communicate appropriate fingerprinting submission guidance to lockbox bank management, and 5) evaluate the use of electronic fingerprints at all lockbox banks.

In their response, IRS management agreed with three of our five recommendations. IRS management agreed to evaluate the feasibility of requiring the lockbox sites to maintain documentation to identify potential employees who have been previously fingerprinted. IRS management has also revised guidance regarding individuals with unclassifiable fingerprint results and ensured that all lockbox sites have electronic fingerprint equipment.

However, IRS management did not fully address our concern that lockbox banks are fingerprinting an excessive number of potential employees. Although IRS management indicated they would require a justification if the number of applicants fingerprinted exceeded industry standards, TIGTA does not believe applying the industry standard hiring ratio will effectively ensure fingerprinting costs will be reduced. Additionally, while TIGTA agrees with IRS management that pre-emptive measures to avoid duplicative fingerprint requests would improve the process, TIGTA believes an analysis of billing information would provide an increased assurance that steps taken by lockbox banks are effective to prevent duplicative charges.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 26, 2012

**MEMORANDUM FOR** INTERNAL REVENUE SERVICE HUMAN CAPITAL OFFICER

*Michael R. Phillips*

**FROM:**

Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Opportunities Exist to Reduce Lockbox  
Fingerprinting Costs (Audit # 201110012)

This report presents the results of our review of the accuracy of fingerprinting costs at Internal Revenue Service (IRS) lockboxes. The overall objective of this review was to determine whether the IRS is accurately billed for the cost of fingerprinting contractors who work in IRS lockbox operations. This review was requested by the IRS and was included in our Fiscal Year 2011 Annual Audit Plan. This review addresses the major management challenge of Erroneous and Improper Payments and Credits.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Russell P. Martin, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations) at (202) 622-8500.



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*Abbreviations*

FY	Fiscal Year
HCO	Human Capital Office
IRS	Internal Revenue Service
OPM	Office of Personnel Management



## *Opportunities Exist to Reduce Lockbox Fingerprinting Costs*

### *Background*

The Internal Revenue Service (IRS) has used lockbox depositories (banks) since 1985. This lockbox network is comprised of three commercial banks<sup>1</sup> that collect tax payments at seven lockbox banks.<sup>2</sup> These banks are authorized to act as financial agents for the IRS to perform electronic and paper-based lockbox services. These services may include, but are not limited to: mail collection and sorting, mail extraction, remittance processing, deposit proofing and balancing, data transmission/delivery, deposit reporting, and funds transferred to the Department of the Treasury.

According to the most recent available data, the lockbox network processed nearly 110 million payments in Fiscal Years (FY) 2009 and 2010, worth almost \$571 billion. Due to the large amount of taxpayer payments received and past incidents of lockbox employees involved in the theft of these funds,<sup>3</sup> employees working in the lockbox operations are not allowed to begin working until the bank receives confirmation from the IRS that the employee has passed a limited background investigation based on a successful fingerprint check. Many of these lockbox employees are contract, part-time, or temporary workers.

The administration of lockbox bank operations involves several different offices. Specifically, the IRS's Wage and Investment Division provides overall oversight to the lockbox program for the IRS. In addition, the Department of the Treasury's Financial Management Service administers the contracts with the lockbox banks. Further, the IRS Human Capital Office (HCO) Personnel Security Branch (hereafter referred to as Personnel Security) has overall responsibility for administering the background and security checks for lockbox employees, including overseeing the costs associated with lockbox fingerprinting charges.

To ensure they can process the large amount of taxpayer payments received at their locations, lockbox banks must hire sufficient staff when needed with cleared background investigations.



<sup>1</sup> The three banks include the: 1) US Bank, 2) Bank of America, and 3) JP Morgan Chase.

<sup>2</sup> Per IRS data, seven lockbox banks were active in FYs 2009 and 2010 and were located in San Francisco, California; Windsor, Connecticut; College Park, Georgia; Tucker, Georgia; St. Louis, Missouri; Charlotte, North Carolina; and Cincinnati, Ohio.

<sup>3</sup> In October 2011, an individual pleaded guilty to mail fraud related to stolen tax payments while a contract employee for Bank of America's lockbox bank located in Tucker, Georgia.



## *Opportunities Exist to Reduce Lockbox Fingerprinting Costs*

All three lockbox banks informed us that they follow the requirements outlined in the IRS's Lockbox Security Guidelines regarding the process for initiating the fingerprinting of potential employees. Lockbox banks initiate the fingerprinting process by submitting fingerprints for potential and current employees directly to the Office of Personnel Management (OPM) for processing. The OPM submits all fingerprints to the Federal Bureau of Investigation, which checks to detect any criminal history and reports the results to the OPM. The OPM forwards the fingerprint results back to the IRS for notification to the lockbox banks.

Background investigations can be initiated through the submission of manual, *i.e.*, ink and roll cards, or electronic fingerprint requests. Each manual fingerprint request costs \$26.25 to process, with the results mailed to the IRS within approximately three to five days after the OPM receives the fingerprints. Electronic fingerprint requests are less expensive to process (\$24.25 per request), and the results are provided to the IRS within approximately one to two days after the OPM receives the fingerprints.

The OPM sends monthly bills to the IRS Personnel Security for charges on all fingerprinting performed at the request of lockbox banks. IRS Personnel Security and Wage and Investment Division personnel perform separate reviews to ensure the charges are appropriate and payment should be made to the OPM.

According to HCO data, nearly \$1.1 million in fingerprinting charges were incurred for lockbox employees during FYs 2009 and 2010. As shown in Figure 1, five locations accounted for approximately 75 percent of the total fingerprinting charges during this period.

**Figure 1: Lockbox Banks With the Highest Fingerprinting Charges in FYs 2009 and 2010**

<b>Lockbox Banks</b>	<b>Total Fingerprinting Charges in FYs 2009 and 2010</b>
US Bank – Cincinnati, Ohio	\$207,877
US Bank – St. Louis, Missouri	\$191,475
Bank of America – College Park, Georgia	\$188,003
Bank of America – Windsor, Connecticut	\$136,906
JP Morgan Chase – Charlotte, North Carolina	\$101,072
<b>TOTAL</b>	<b>\$825,333</b>

*Source: Treasury Inspector General for Tax Administration analysis of IRS lockbox cost data.*

The review was performed at the IRS Wage and Investment Division office in Lanham, Maryland, and at the IRS HCO Personnel Security Branch at the IRS National Headquarters in Washington, D.C. In addition, we visited three lockbox banks located in College Park, Georgia; Charlotte, North Carolina; and Cincinnati, Ohio, from July through



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November 2011. 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. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## *Opportunities Exist to Reduce Lockbox Fingerprinting Costs*

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### *Results of Review*

We determined that opportunities exist to reduce fingerprinting costs at various IRS lockbox locations. For example, an excessive number of potential lockbox bank employees are fingerprinted. We estimate that the three lockbox banks reviewed unnecessarily fingerprinted 6,646 individuals, resulting in \$161,165 in excessive charges.<sup>4</sup> We also identified that the IRS paid fingerprinting charges for the same individuals in more than 1,000 instances in the same fiscal year, resulting in approximately \$25,000 in unnecessary costs. Another area for potential cost savings involves the high use of manual fingerprinting at one lockbox bank. We determined that if electronic fingerprinting was fully used at this lockbox bank, the IRS could have saved approximately \$14,000 for FYs 2009 and 2010. Because of these opportunities, we believe the IRS could have saved 40 percent of the \$496,953 in fingerprinting charges in FYs 2009 and 2010 for the three lockbox banks reviewed.

Effective cost management is especially important given the current economic environment and the focus on efficient spending in the Federal Government. Additional actions by the IRS will ensure fingerprinting costs are minimized at all seven lockbox banks and that it is using its scarce resources more efficiently.

### ***Fingerprinting Costs at Internal Revenue Service Lockbox Banks Can Be Reduced***

We found several opportunities where the IRS could reduce fingerprinting costs at IRS lockbox locations. Specifically, we determined that lockbox banks are fingerprinting an excessive number of potential employees, resulting in increased costs. In addition, lockbox banks submitted fingerprints for several individuals more than once in the same fiscal year, resulting in unnecessary charges. Further, we determined that one lockbox bank could decrease fingerprinting charges paid by the IRS by expanding the use of less costly electronic fingerprints, rather than the manual ink and roll process.

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<sup>4</sup> A judgmental sample is a nonstatistical sample, the results of which cannot be used to project to the population.



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**Lockbox banks are fingerprinting an excessive number of potential lockbox employees**

We determined that all lockbox employees in our sample had a documented clearance letter, indicating they had received a successful background investigation. This provided the IRS with some assurance that lockbox employees had passed a limited background investigation. However, we determined that the three banks selected for our review fingerprinted an excessive number of potential employees during FYs 2009 and 2010. Figure 2 shows that the selected lockbox banks fingerprinted an average of twice as many potential employees than were ultimately hired to staff the lockbox operations during FYs 2009 and 2010.

**Figure 2: Analysis of Lockbox Fingerprint and Employee Data**

FY 2009				
	Lockbox 1	Lockbox 2	Lockbox 3	Total Costs
Persons Fingerprinted	4,072	5,333	1,985	
Employees Hired to Work in Lockbox	1,624	2,155	920	
Approximate Ratio of Persons Fingerprinted to Employees Hired	2.5:1	2.5:1	2.2:1	
Total Fingerprinting Costs	\$106,890	\$132,243	\$53,330	\$292,463

FY 2010				
Persons Fingerprinted	3,090	3,024	1,871	
Employees Hired to Work in Lockbox	1,363	1,912	882	
Approximate Ratio of Persons Fingerprinted to Employees Hired	2.3:1	1.6:1	2:1	
Total Fingerprinting Costs	\$81,113	\$75,634	\$47,743	\$204,490

*Source: Treasury Inspector General for Tax Administration analysis of IRS and lockbox bank data.*

We understand that lockbox banks need to fingerprint a sufficient number of individuals to staff the lockbox operations, taking into account normal employee attrition, and that some potential employees will not receive a successful fingerprint check. Using fingerprint data obtained from the IRS HCO, we determined that the average number of individuals who historically do not receive an approved fingerprint analysis ranged from approximately 16 to 32 percent during FYs 2009 and 2010 at the three lockbox banks included in our review. If the lockbox banks fingerprinted an additional 10 percent more individuals than historically fail the fingerprint check (to allow for normal attrition), we believe that the number of unnecessary individuals submitted for fingerprint checks ranged from approximately 58 to 74 percent, depending on the lockbox bank. As a result, we estimate that 6,646 unnecessary fingerprints may have been submitted



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resulting in excess costs of \$161,165. See Appendix IV for a detailed breakdown of the potential cost savings.

Each lockbox bank is required to submit an annual Lockbox Filing Season Readiness Package to Wage and Investment Division personnel for review. This package outlines each lockbox bank's plan to help ensure that it meets peak taxpayer filing demands. It also includes staffing schedules that provide detailed information on staffing totals and projected production during the peak periods. However, this package does not include a justification or analysis to determine the adequate number of employees needed to staff lockbox banks during peak filing periods. Current IRS guidance does not require lockbox banks to justify or perform any analysis regarding its projected staffing needs during the peak filing periods related to fingerprinting costs.

While it is essential for lockbox bank management to fingerprint sufficient individuals to ensure there is adequate staff to process taxpayer payments received at the lockbox, we do not believe it is reasonable to unnecessarily fingerprint individuals who will likely not be hired by the lockbox banks. As a result, we believe IRS management should work with the lockbox banks to perform a comparative analysis of prior year hirings to current year projected peak filing period demands. This would provide a benchmark in determining a reasonable number of individuals who should be fingerprinted to meet filing demands.

### **Fingerprinting charges were not reviewed for accuracy before payment**

Lockbox banks rely on outside staffing agencies to recruit and process potential lockbox employees. Individuals interested in working for lockbox banks must register with these staffing agencies. To ensure there are an adequate number of qualified candidates available for employment consideration, lockbox banks may contract with multiple staffing agencies. However, we determined there is no process to identify individuals who register at more than one staffing agency. Consequently, individuals who register at more than one staffing agency could be fingerprinted multiple times, resulting in unnecessary duplicate charges.

We analyzed IRS HCO monthly fingerprint billing data to identify duplicate fingerprinting charges for which the IRS was billed during FYs 2009 and 2010. We found that all three of the lockbox banks we visited submitted duplicate fingerprints to the OPM during this period. Specifically, we identified more than 1,000 instances in which individuals were fingerprinted more than once by selected lockbox banks in the same fiscal year, resulting in approximately \$25,000 in duplicate fingerprinting charges in FYs 2009 and 2010. Figure 3 shows the value of the duplicate fingerprinting charges for which the IRS was billed during FYs 2009 and 2010.



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**Figure 3: Duplicate Fingerprint Submissions by Three Lockbox Banks**

<b>FY 2009</b>		
	<b>Duplicate Fingerprints</b>	<b>Cost of the Duplicate Fingerprints</b>
Lockbox 1	438	\$10,621
Lockbox 2	86	\$2,086
Lockbox 3	120	\$2,910
<b>TOTALS</b>	<b>644</b>	<b>\$15,617</b>

<b>FY 2010</b>		
Lockbox 1	288	\$6,984
Lockbox 2	51	\$1,237
Lockbox 3	45	\$1,091
<b>TOTALS</b>	<b>384</b>	<b>\$9,312</b>
<b>TOTALS FOR FYS 2009 AND 2010</b>	<b>1028</b>	<b>\$24,929</b>

Source: Treasury Inspector General for Tax Administration analysis of IRS lockbox data.

Although staff within both the IRS HCO and the Wage and Investment Division review monthly fingerprinting charges, neither office has an effective process in place to identify duplicate fingerprinting charges. In addition, we determined that only one of the three lockbox banks visited maintained a log or other documentation listing the individuals they fingerprinted during the fiscal year. The IRS HCO sorts and totals fingerprinting charges received from the OPM and prepares a monthly spreadsheet for the Wage and Investment Division. Although the IRS HCO reconciles the monthly charges to summary spreadsheets, no other detailed analysis is performed to ensure duplicate payments are not made for individuals previously fingerprinted during the fiscal year.

In addition, OPM guidance requires that any fingerprint result of “unclassifiable” by the Federal Bureau of Investigation will require a second fingerprint submission. However, there is no charge associated with this second fingerprint request if the submission is processed with the case number associated with the original fingerprint request. We determined that 592 (58 percent) of the 1,028 duplicate charges were originally determined to be “unclassifiable” by the Federal Bureau of Investigation. Each resubmission was associated with a different case number for which the IRS was charged as if it were a new fingerprint submission. Lockbox bank management confirmed that they were unfamiliar with OPM guidance and unaware that the original case number must be used during the resubmission of “unclassifiable” results to avoid being charged again for the fingerprint resubmission.



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A more effective review process of charges submitted by all the lockbox banks would ensure the IRS is not charged more than once for the same potential lockbox employees. In addition, increased awareness of OPM guidance by the lockbox banks would reduce the amount of unnecessary fingerprinting charges paid by the IRS.

### **Expanded use of electronic fingerprints could further reduce costs**

During our review, two of the three lockbox banks submitted mostly electronic fingerprints to the OPM. However, the remaining lockbox bank primarily submitted manual ink and roll fingerprints, even though electronic fingerprint machines were available for use. During FYs 2009 and 2010, the IRS was billed \$188,003 for the manual fingerprints submitted by this lockbox bank. Because of the increased cost associated with manual fingerprints, we determined that \$14,324 in cost savings could have been realized at this lockbox location if electronic fingerprinting was performed.

Lockbox banks are allowed to submit both manual and electronic fingerprints to the OPM for processing, and there is no documented policy requiring lockbox banks to submit electronic fingerprints when possible. Bank officials at the one lockbox bank primarily using manual fingerprinting informed us they use this process rather than electronic fingerprints because they were not equipped with functioning electronic fingerprint machines.

To perform electronic fingerprinting, lockbox banks must have specific equipment. The IRS and the Department of the Treasury's Financial Management Service share the fingerprinting costs for lockbox employees. Although the IRS pays for a portion of the costs associated with fingerprint checks, Financial Management Service officials informed us that they would pay for the upgrade of new electronic equipment at all the lockbox locations if it were cost beneficial.

According to the Wage and Investment Division, all of the lockbox banks are currently equipped with in-house electronic fingerprinting machines except for this lockbox location. Wage and Investment Division officials also informed us that their goal is to have all of the lockbox banks transmitting electronic fingerprints to the OPM 100 percent of the time. However, they advised us that there may still be isolated instances, such as equipment failure and off-site bank personnel and vendors, which may require the use of the manual ink and roll fingerprinting process.

As previously stated, electronic fingerprinting is less costly to process than the manual process and the results are received by lockbox banks more quickly. In addition, lockbox management is immediately notified if a fingerprint is improperly scanned, potentially limiting the number of "unclassified" fingerprinting results. Although submission of electronic fingerprints by lockbox banks has increased in recent years, we believe the IRS should evaluate the use of electronic fingerprinting at all the lockbox locations to minimize costs and provide faster background investigation results to lockbox banks.



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## **Recommendations**

The IRS HCO, in coordination with Wage and Investment Division management, should:

**Recommendation 1:** Perform an annual assessment of the number of staff needed at each lockbox bank for each fiscal year and the additional number of individuals that need to be fingerprinted to ensure fingerprinting charges are not excessive. This assessment could be included as part of the annual Readiness Package prepared by each lockbox bank or calculated by IRS personnel based on historical lockbox data.

**Management's Response:** IRS management partially agreed with this recommendation. Although they did not agree to incorporate a requirement within the annual Readiness Package to provide information related to the number of individuals needing to be fingerprinted, they plan to update the annual Readiness Package to include an annual projected number of staff hired during the calendar year and the ratio to the number of projected applicants fingerprinted. IRS management also stated that if the ratio is outside of the American Industry Standard, the IRS plans to require the lockbox bank to provide a justification.

**Office of Audit Comment:** IRS management did agree with our suggestion to include an assessment of the number of staff needed to be fingerprinted in the annual Readiness Package. However, IRS management did not fully address our concern that lockbox banks are fingerprinting an excessive number of potential employees. IRS management indicated they would require justification if the number of applicants fingerprinted exceeded industry standards. During our review, we determined that the lockbox banks currently had a fingerprint to hiring ratio between 1.6 and 2.5 to 1, which is similar to the industry standard ratio. Therefore, we do not believe that applying the industry standard hiring ratio will be effective in reducing fingerprinting costs. As a result, we believe our cost savings estimates are valid.

**Recommendation 2:** Evaluate the feasibility of requiring lockbox banks to maintain and review logs or other documentation of individuals fingerprinted by the banks, including reviewing them to identify potential employees who have been previously fingerprinted so they will not submit to the OPM a second fingerprint request for that individual.

**Management's Response:** IRS management agreed to evaluate the feasibility of requiring the lockbox sites to maintain logs or other documentation to identify potential employees who have been previously fingerprinted.

**Recommendation 3:** Develop a process requiring IRS personnel to periodically review and analyze fingerprint billing data to ensure the lockbox banks are not submitting fingerprinting charges more than once for the same individuals.



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**Management's Response:** IRS management stated that this recommendation should be revised to focus on pre-emptive measures to avoid sending duplicative fingerprint requests because the electronic fingerprints go directly from the lockbox bank to the OPM. IRS management stated that they would engage the OPM and the lockbox vendors in identifying a viable solution to reduce the number of individuals fingerprinted more than once by lockbox banks within a specific time period.

**Office of Audit Comment:** We agree that pre-emptive measures to avoid sending duplicative fingerprint requests would improve their process. However, we believe that an analysis of billing information would provide IRS management with increased assurance that any steps taken by the lockbox banks are effective to prevent duplicative charges.

**Recommendation 4:** Disseminate and clearly communicate appropriate fingerprinting submission guidance to lockbox bank management to help reduce improper fingerprint resubmissions to the OPM and reduce costs to the IRS. This should include the requirement that "unclassifiable" fingerprint results be resubmitted with the original case number to avoid unnecessary fingerprinting charges.

**Management's Response:** IRS management agreed with this recommendation and stated that effective November 28, 2011, the IRS revised its guidance to ensure individuals with unclassifiable fingerprint results are no longer required to be fingerprinted again and resubmitted to the OPM. They also stated a programming change was made to the Automated Background Investigation System<sup>5</sup> the week of February 27, 2012, which allows the HCO to change an individual's biometric data and retransmit the results. According to IRS management, this change eliminates the need for individuals with incorrect biometric data to be reprinted.

**Recommendation 5:** Evaluate the use of electronic fingerprints at all lockbox banks and assess the business need of requiring lockbox banks to fully use this process to reduce fingerprinting costs in the future.

**Management's Response:** IRS management agreed and stated that as of January 2012, all lockbox sites have electronic fingerprint equipment.

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<sup>5</sup> The Automated Background Investigation System encompasses background investigations processing from the step at which background investigations application forms are completed to final case disposition.



## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether the IRS is accurately billed for the cost of fingerprinting contractors who work in IRS lockbox operations. To accomplish the objective, we:

- I. Evaluated the IRS's process to ensure that the fingerprinting costs for contract employees assigned to lockbox operations are accurate.
  - A. Interviewed appropriate IRS HCO personnel and determined the process they follow when reviewing fingerprinting bills received from the OPM and approving payment for billed charges.
  - B. Determined whether IRS management reviews lockbox operations and assesses the accuracy of the fingerprinting costs.
  - C. Obtained and reviewed any written procedures established by the IRS HCO to review and approve fingerprinting charges received.
  - D. Obtained and reviewed contracts governing lockbox operations and identified any procedures related to the fingerprinting process.
  - E. Reviewed Internal Revenue Manuals, Lockbox Security Guides, and Lockbox Processing Guides relating to the IRS's fingerprinting process for lockbox bank employees.
  - F. Interviewed IRS HCO personnel and obtained an understanding of the Automated Background Investigation System<sup>1</sup> and determined how the data are used to ensure the IRS is accurately billed for fingerprinting costs for lockbox bank employees.
- II. Determined the lockbox banks' processes for submitting the fingerprints of potential lockbox employees to the OPM for processing.
  - A. Selected a judgmental sample of three lockbox banks to perform detailed audit testing. We judgmentally selected and performed site visits to Bank of America located in College Park, Georgia; JP Morgan Chase located in Charlotte, North Carolina; and US Bank located in Cincinnati, Ohio. We judgmentally selected those sites due to time constraints and to provide audit

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<sup>1</sup> The Automated Background Investigation System encompasses background investigations processing from the step at which background investigations application forms are completed to final case disposition.



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- coverage at all three lockbox financial institutions and because those sites billed high fingerprinting charges to the IRS during FYs 2009 and 2010.
- B. Interviewed lockbox bank management at the three selected sites and determined their process for fingerprinting and assigning employees to the lockbox area.
  - C. Obtained and reviewed bank employee fingerprinting policies and procedures at the selected lockbox banks.
  - D. Obtained and reviewed documentation, including fingerprint cards and consents, driver's licenses, social security cards, employee photos, and any other supporting documentation at the selected sites that supported the specific employees who worked in the lockbox area during FYs 2009 and 2010.
  - E. Obtained and reviewed lockbox bank documentation at the selected sites and identified the employees for whom fingerprints were submitted to the OPM and billed to the IRS.
  - F. Determined whether the employees identified in Step II.D. had a documented clearance letter.
- III. Determined whether the IRS was accurately and appropriately billed for fingerprinting costs associated with approved bank employees assigned to the lockbox bank area during FYs 2009 and 2010.
- A. Obtained a complete list from IRS HCO management of all lockbox bank employees for whom the IRS was billed for fingerprints in FYs 2009 and 2010.
  - B. Compared the information obtained in Step II.D. with the information obtained in Step III.A. and identified any individuals who were fingerprinted but did not work in the lockbox bank area.

**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 the following internal controls were relevant to our audit objective: IRS procedures and policies for reviewing fingerprint billing charges incurred at IRS lockbox banks during FYs 2009 and 2010. We evaluated these controls by interviewing personnel at the IRS, the Department of the Treasury's Financial Management Service, and the selected lockbox banks and reviewing applicable documentation.



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**Appendix II**

*Major Contributors to This Report*

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LaToya R. Penn, Auditor  
Rashme Sawhney, Auditor



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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Commissioner, Wage and Investment Division SE:W  
Deputy IRS Human Capital Officer OS:HC  
Director, Employment, Talent, and Security, Human Capital Office OS:HC:ETS  
Director, Strategy and Finance, Wage and Investment Division SE:W:S  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
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**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 Congress.

**Type and Value of Outcome Measure:**

- Cost Savings: Funds Put to Better Use – Potential; \$161,165 (see page 4).

**Methodology Used to Measure the Reported Benefit:**

To determine the potential excess fingerprinting charges paid by the IRS, we divided the number of individuals hired to work at each lockbox bank location by the percentage of individuals who should have received an approved fingerprint check in order to get a reasonable number of individuals who should have been fingerprinted for each location. In addition, to account for possible attrition, *etc.*, we added an extra 10 percent to the number of individuals hired to work in each location. We subtracted the difference between the actual numbers of individuals fingerprinted from the number of individuals who should have been fingerprinted and multiplied this result by the cost of processing an electronic fingerprint (\$24.25) to determine the potential cost savings.

FY 2009	Lockbox 1	Lockbox 2	Lockbox 3	Total Costs
Employees Hired to Work in Lockbox Bank	1,624	2,155	920	
Percentage of Individuals Who Did Not Receive an Approved Fingerprint Check	32.8%	20.2%	29.7%	
Individuals Requiring Fingerprinting to Ensure Sufficient Staffing (Accounting for “Unapproved” Fingerprints)	$1,624 / (1 - .328) = 2,417$	$2,155 / (1 - .202) = 2,701$	$920 / (1 - .297) = 1,309$	
Extra Percentage of Potential Employees to Fingerprint to Account for Attrition, <i>etc.</i>	$1,624 \times 10\% = 162$	$2,155 \times 10\% = 215$	$920 \times 10\% = 92$	



*Opportunities Exist to Reduce  
Lockbox Fingerprinting Costs*

Individuals Fingerprinted	4,072	5,333	1,985	
Number of Individuals Potentially Fingerprinted Unnecessarily	4,072 - 2,417 - 162 = 1,493	5,333 - 2,701 - 215 = 2,417	1,985 - 1,309 - 92 = 584	
Estimated Excessive Fingerprinting Costs	\$36,205	\$58,612	\$14,162	\$108,979

<b>FY 2010</b>				
Employees Hired to Work in Lockbox Bank	1,363	1,912	882	
Percentage of Individuals Who Did Not Receive an Approved Fingerprint Check	31.1%	16.5%	23.3%	
Individuals Requiring Fingerprinting to Ensure Sufficient Staffing (Accounting for “Unapproved” Fingerprints)	1,363/(1 - .311) = 1,978	1,912/(1 - .165) = 2,290	882/(1 - .233) = 1,150	
Percentage of Potential Employees to Fingerprint to Account for Attrition, etc.	1,363 x 10% = 136	1,912 x 10% = 191	882 x 10% = 88	
Individuals Fingerprinted	3,090	3,024	1,871	
Number of Individuals Potentially Fingerprinted Unnecessarily	3,090 - 1,978 - 136 = 976	3,024 - 2,290 - 191 = 543	1,871 - 1,150 - 88 = 633	
Estimated Excessive Fingerprinting Costs	\$23,668	\$13,168	\$15,350	\$52,186

Source: Treasury Inspector General for Tax Administration analysis of IRS lockbox data.

Total estimated excessive fingerprinting costs for FYs 2009 and 2010: \$109,979 + \$52,186 = \$161,165.

**Type and Value of Outcome Measure:**

- Cost Savings: Funds Put to Better Use – Potential; \$24,929 (see page 4).

**Methodology Used to Measure the Reported Benefit:**

We analyzed the IRS HCO’s monthly fingerprint billing data to identify duplicate fingerprinting charges for which the IRS was billed during FYs 2009 and 2010. Based on our review, we identified 1,028 instances in which individuals were fingerprinted more than once in the same



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## *Opportunities Exist to Reduce Lockbox Fingerprinting Costs*

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fiscal year by the three lockbox banks reviewed. Specifically, we identified 644 instances in FY 2009 and 384 instances in FY 2010.

To be conservative, we used the lower cost of electronic fingerprinting (\$24.25) to determine the cost savings for the three lockbox banks. As a result, we determined the duplicate fingerprinting charges totaled \$24,929.

FY 2009 duplicate charges: 644 duplicates x \$24.25 = \$15,617.

FY 2010 duplicate charges: 384 duplicates x \$24.25 = \$9,312.

Total duplicate charges for FYs 2009 and 2010: \$15,617 + \$9,312 = \$24,929.

### **Type and Value of Outcome Measure:**

- Cost Savings: Funds Put to Better Use – Potential; \$14,324 (see page 4).

### **Methodology Used to Measure the Reported Benefit:**

To determine the potential savings on electronic fingerprinting charges, we analyzed the IRS HCO's monthly fingerprint billing data to determine the charges the IRS incurred on behalf of the lockbox bank that submitted manual fingerprints in FYs 2009 and 2010. Based on our analysis, we determined that 7,162 manual fingerprints were submitted by the lockbox bank totaling \$188,003 (7,162 x \$26.25).

We then determined the cost savings that could have been realized if electronic fingerprinting had been performed at the lower cost (\$24.25). This totaled \$173,679 (7,162 x \$24.25).

To calculate the savings, we subtracted the cost of electronic fingerprinting from the manual fingerprinting costs to determine a savings of \$14,324.

Total potential savings: \$188,003 - \$173,679 = \$14,324.



*Opportunities Exist to Reduce  
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**Appendix V**

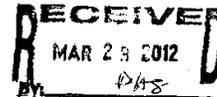
*Management's Response to the Draft Report*



HUMAN CAPITAL OFFICE

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

MAR 22 2012



MEMORANDUM FOR NANCY A. NAKAMURA  
ASSISTANT INSPECTOR GENERAL FOR AUDIT  
(MANAGEMENT SERVICES AND EXEMPT  
ORGANIZATIONS)

FROM: Debra Chew   
IRS Human Capital Officer

SUBJECT: Draft Audit Report – Opportunities Exist to Reduce Lockbox  
Fingerprinting Costs (Audit # 200110012)

Thank you for the opportunity to comment on the draft report. The IRS Personnel Security team requested this audit in 2008 to identify opportunities to reduce fingerprinting costs at IRS lockbox bank operations. Last year, the IRS team implemented three process changes which will significantly improve our overall billing process and reduce fingerprinting costs:

1. We use the FBI name check results provided by OPM to make the suitability determination. This improvement eliminates the requirement for banks to submit a second set of fingerprints to OPM when the first set was unclassifiable.
2. We adjudicate all fingerprinting results with issues (arrests) to determine whether the issues are truly disqualifying. The new process should reduce the number of temporary associates deemed unsuitable and therefore, increase the pool of candidates eligible to work in the lockbox facilities.
3. We resubmit fingerprint requests to OPM when the name, SSN, or DOB is incorrect on the original submission. Once ABIS is modified, we can simply change the subject's information and retransmit the results with the corrected name at no additional charge.

Although we agree additional opportunities exist to further reduce the lockbox fingerprinting costs, we only partially agree with the methodology used to determine the reasonable number of individuals who should have been fingerprinted and the amount of the potential savings. We believe the potential to save \$496,953 in FY 2009 and 2010 is overstated based on the methodology used to determine the number of excessive fingerprints taken. The two factors as stated in the draft report that contributed to the fingerprint volume submitted were fingerprint fail rate and attrition. Although rejections or fail rate is a valid contributor, lockbox employee attrition is not a determining factor.



## *Opportunities Exist to Reduce Lockbox Fingerprinting Costs*

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Lockbox sites use temporary staffing agencies to fill positions that may last a few days or a few weeks. The stated lockbox fingerprint to hiring ratios ranging from 2.5:1 to 1.5:1 is well within this industry standard. This ratio is necessary to ensure the sites have an acceptable fail rate to meet their staffing requirements in order to address potential employees who are selected but can not be reached to extend a job offer, those who decline the offer, and those who accept the offer but do not show up for work on the first day. Conversely, due to highly fluctuating volumes, the lockbox sites may not receive the workload volume that IRS research projected and therefore the sites may not need to employ the number of employees originally estimated to be processed. Although these situations are outside of the control of lockbox site management, to reduce the number of excessive fingerprints, lockbox sites do pre-screen employees prior to submitting fingerprints to OPM. We believe the potential savings is much lower. Further analysis is required to offer a more reasonable potential savings.

Attached is a detailed response to each of the five recommendations. We would like to continue to discuss this matter with you prior to the issuance of the final report. You may contact me at (202) 622-7676 or a member of your audit team may contact Becky Barber, Director, Employment, Talent and Security, HCO at (202) 622-7011 to schedule a meeting.

Attachment



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*Opportunities Exist to Reduce  
Lockbox Fingerprinting Costs*

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**IRS Comments on TIGTA's Lockbox Audit  
Draft Recommendations  
03/30/12**

**Recommendation 1:** Perform an annual assessment of the number of staff needed at each lockbox bank for each fiscal year and the additional number of individuals that need to be fingerprinted to ensure fingerprinting charges are not excessive. This assessment could be included as part of the annual Readiness Package prepared by each lockbox bank or calculated by IRS personnel based on historical lockbox data.

**IRS Comments on Recommendation 1:** IRS partially agrees with this recommendation. Although we do not agree to incorporate a requirement within the Filing Season Readiness (FSR) to provide fiscal year information related to the number of individuals needing to be fingerprinted, we will update the FSR to request on a separate line item to include an annual projected number of staff hired during the calendar year and the ratio to the number of projected applicants fingerprinted. If the ratio is outside of the American Industry Standard, we will require the site to provide a justification.

The FSR is one of many tools used to demonstrate the sites have adequately planned and taken the necessary steps to achieve a successful peak filing season. Each site demonstrates through the illustration of numerical workload and staff totals for peak processing (number per shift and area) for permanent bank staff and seasonal/temporary employees, guard staff, etc., that the site will be adequately staffed to meet the peak workload. IRS performs this assessment through the billing process, not the annual Readiness Package. A high level analysis is developed regarding each site's projected volume in relation to submitted fingerprint requests using the billing process. The analysis includes changes to projected volumes caused by economic or legislative changes, workload redistribution changes, and program or process changes that require increase or decreases in staff. Additionally, to manage the risk associated with increased workload during April peak processing, each lockbox site submits a FSR package by December of the previous year.

**IMPLEMENTATION DATE:** 1/15/2013

**RESPONSIBLE OFFICIAL:** Wage and Investment, Director, Submission Processing



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*Opportunities Exist to Reduce  
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2

**Recommendation 2:** Evaluate the feasibility of requiring lockbox banks to maintain and review logs or other documentation of individuals fingerprinted by the banks, including reviewing them to identify potential employees who have been previously fingerprinted so they will not submit to the OPM a second fingerprint request for that individual.

**IRS Comments on Recommendation 2:** Agree. IRS will evaluate the feasibility of requiring the lockbox sites to maintain logs or other documentation to identify potential employees that have been previously fingerprinted.

**IMPLEMENTATION DATE:** 1/15/2013

**RESPONSIBLE OFFICIAL:** Wage and Investment, Director, Submission Processing

**Recommendation 3:** Develop a process requiring IRS personnel to periodically review and analyze fingerprint billing data to ensure the lockbox banks are not submitting fingerprinting charges more than once for the same individuals.

**IRS Comments on Recommendation 3:** We believe this recommendation should be revised to focus on pre-emptive measures to avoid sending duplicative fingerprint requests and being charged since the electronic fingerprints go directly from the lockbox bank to OPM. However, we will engage OPM and the lockbox vendors in identifying a viable solution to reduce the number of individuals fingerprinted more than once by lockbox banks within a specific timeframe.

**IMPLEMENTATION DATE:** 09/30/12

**RESPONSIBLE OFFICIAL:** Human Capital Office, Director, Employment, Talent and Security

**Recommendation 4:** Disseminate and clearly communicate appropriate fingerprinting submission guidance to lockbox bank management to help reduce improper fingerprint resubmissions to the OPM and reduce costs to the IRS. This should include the requirement that "unclassifiable" fingerprint results be resubmitted with the original case number to avoid unnecessary fingerprinting charges.



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*Opportunities Exist to Reduce  
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3

**IRS Comments on Recommendation 4:** Agree. Effective 11/28/11 IRS revised its guidance to ensure individuals with unclassifiable fingerprint results are no longer required to be fingerprinted again and resubmitted to OPM. In addition, a programming change was made to ABIS the week of 02/27/12 which allows the Human Capital Office to change an individual's biometric data and retransmit the results. This eliminates the need for individuals with incorrect biometric data to be re-fingerprinted.

**IMPLEMENTATION DATE:** Implemented

**RESPONSIBLE OFFICIAL:** Human Capital Office, Director, Employment, Talent and Security

**Recommendation 5:** Evaluate the use of electronic fingerprints at all lockbox banks and assess the business need of requiring lockbox banks to fully use this process to reduce fingerprint costs in the future.

**IRS Comments on Recommendation 5:** Agree. As of January 2012, all lockbox sites have electronic fingerprint equipment. As a result, the January 2012 reports show marked improvements across the board.

**IMPLEMENTATION DATE:** Implemented

**RESPONSIBLE OFFICIAL:** Wage and Investment, Director, Submission Processing