



*Controls Over Costs and Building Security
Related to Outsourced Office Support
Services Need to Be Improved*

August 19, 2011

Reference Number: 2011-10-086

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

CONTROLS OVER COSTS AND BUILDING SECURITY RELATED TO OUTSOURCED OFFICE SUPPORT SERVICES NEED TO BE IMPROVED

Highlights

Final Report Issued on August 19, 2011

Highlights of Reference Number: 2011-10-086 to the Internal Revenue Service Chief, Agency-Wide Shared Services.

IMPACT ON TAXPAYERS

In November 2006, the Internal Revenue Service (IRS) awarded a contract with a maximum value of approximately \$90 million to a private contractor to perform support services functions, including storage and management, throughout IRS facilities. Overall, TIGTA found that the IRS expends time and resources storing items it has not clearly determined to be of future usefulness and has ineffective controls over credentials, such as identification badges, issued to contractor employees. As a result, the IRS may be paying more for its support services needs than is necessary and its facilities may be at risk for unauthorized access.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS managed outsourced support services in a cost-effective manner and minimized unauthorized access to Federal Government assets and sensitive information associated with the program.

WHAT TIGTA FOUND

TIGTA determined that the IRS should take additional steps to ensure support services are managed in a more cost-effective and secure manner. Specifically, the IRS should evaluate whether it is cost effective to continue to move into storage rather than dispose of furniture and equipment that has not been clearly determined to be of future usefulness.

In addition, TIGTA determined that controls should be improved to ensure contractor employees no longer have access to IRS

locations after being separated from the contractor. The IRS could not confirm that 116 (94 percent) of the 124 employees separated from the contractor since the initiation of the contract returned their identification badges and building access cards as required. As a result, the security of IRS facilities and Federal Government assets may have been compromised.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Real Estate and Facilities Management, Agency-Wide Shared Services, review all items currently in storage to identify items for possible disposal; maintain documentation regarding the reason for storage for all future items placed into warehouse storage; establish criteria to guide future decisions regarding whether items should be placed into storage; ensure the IRS retains flexibility to implement potential cost savings identified as a result of inventory reviews or changes to storage policies; and incorporate into existing procedures the required exit procedures regarding separating contractor employees. Also, the Director, Physical Security and Emergency Preparedness, Agency-Wide Shared Services, should reconcile Contractor Security Lifecycle Program records to a quarterly listing of separated employees provided by the support services contractor.

In their response, IRS management agreed to our recommendations. Management stated that they plan to evaluate the need for continued storage of existing property; develop procedures to capture the condition, age, reason for storage, and future use of stored property; continue to routinely monitor for any changes required to the support services contract; and update existing procedures to include the process and procedures to be followed for separating contractor employees. Finally, management stated that contractors are required to report all separated contractor employee information to the Contractor Security Lifecycle Program in accordance with new security clauses. In addition, the IRS plans to have the contractor provide a quarterly list of separated contractor employees to the IRS for review.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 19, 2011

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

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

SUBJECT: Final Audit Report – Controls Over Costs and Building Security
Related to Outsourced Office Support Services Need to Be Improved
(Audit # 201010001)

This report presents the results of our review of outsourced support services. The overall objectives of this review were to determine whether the Internal Revenue Service (IRS) managed outsourced support services in a cost-effective manner and minimized unauthorized access to Federal Government assets and sensitive information associated with the program. This review was included in our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Leveraging Data to Improve Program Effectiveness and Reduce Costs.

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 Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.



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Abbreviations

COTR	Contracting Officer's Technical Representative
CSLP	Contractor Security Lifecycle Program
IRS	Internal Revenue Service
REFM	Real Estate and Facilities Management
URS	URS Federal Technical Services



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Background

In November 2006, the Internal Revenue Service (IRS) Office of Real Estate and Facilities Management (REFM) entered into a contract with EG&G Technical Services (a wholly owned subsidiary of URS Corporation and later renamed URS Federal Technical Services, Inc.) to provide support services to the IRS. Support services include the moving and storage of equipment and furniture, inventory management of storage items, and miscellaneous work order processing, such as property and locksmith repairs. The contract was awarded for 5 years, with a maximum contract value of approximately \$90 million. Through April 29, 2011, URS Federal Technical Services (hereafter referred to as URS) had performed and received payment for services representing approximately \$79 million, with approximately \$11 million of payments occurring in Fiscal Year 2011 as of that date. These costs relate only to payments from the IRS to URS for its performance under the terms of the contract and do not include costs the IRS may incur related to the support of the contract, such as oversight or rent related to warehouse space used to store inventory.

In November 2006, the Internal Revenue Service outsourced support services to a private contractor. Support services include warehousing and repairs.

According to the terms of the contract, URS is responsible for providing warehousing, transportation, repairs, other support services such as locksmithing, and work order processing that directly or indirectly support IRS employees located at offices throughout the 48 contiguous United States. The URS manages warehouse space at the following offices: 12 IRS campuses¹ and/or computing centers,² the IRS National Headquarters in Washington, D.C., and the New Carrollton Federal Building.

As part of the contract with URS, furniture and equipment, such as desks, chairs, and computer monitors, are often moved from an IRS location and placed into storage for potential future business needs. URS is responsible for moving such designated furniture and equipment within IRS office space and overseeing items in designated storage areas located within IRS space. In addition, URS agreed to provide a fully automated management information system, established

¹ The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.

² IRS computing centers support tax processing and information management through a data processing and telecommunications infrastructure.



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as the Warehouse and Transportation Management System.³ This system can be used to manage work order processing, including the development of databases to account for items moved from IRS locations and placed into storage.

URS employees are staffed at 10 campus locations, 2 computing centers, the IRS National Headquarters in Washington, D.C., and the New Carrollton Federal Building. After passing a required background investigation, the IRS provides URS employees daily access to IRS facilities through the issuance of identification badges and building access cards to perform the support services duties. Although URS is permitted to obtain the services of subcontractors for required services at IRS locations when necessary, our audit work did not examine the use or work activity of any subcontractors obtained by URS.

This review was performed at the Kansas City Campus in Kansas City, Missouri; the Martinsburg Computing Center in Kearneysville, West Virginia; the Brookhaven Campus in Holtsville, New York; and the Arlington, Virginia, office of the IRS Agency-Wide Shared Services, Real Estate and Facilities Management, during the period September 2010 through April 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

³ The Warehouse and Transportation Management System is an automated inventory and information system that manages warehousing, transportation, repairs, and other logistic services. This system records and tracks all the work performed by URS, maintains a complete inventory of all products stored, and generates work tickets for URS based on work requests from the IRS.



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Results of Review

We determined that the IRS should take additional steps to ensure support services are managed in a more cost-effective and secure manner. Specifically, the IRS should determine if it can reduce present costs by disposing of items currently in storage that it no longer needs. As of September 2010, the IRS had 80,606⁴ items in URS-managed storage, with 28 percent in storage 18 months or longer with no activity. The IRS should also evaluate whether it is cost effective to continue to move into storage rather than dispose of furniture and equipment that it has not clearly determined to be of use in the future. A comprehensive evaluation of this process may enable the IRS to reduce costs and more efficiently use its resources. This is especially important given the current economic environment and the increased focus by the Administration, Congress, and American taxpayers on Federal Government accountability and efficient use of resources.

In addition, the security of IRS facilities and Federal Government assets may have been compromised. The IRS could not confirm that 116 (94 percent) of the 124 employees who had separated from URS since the initiation of the contract returned their identification badges and building access cards as required. As a result, we determined that controls should be improved to ensure URS employees no longer have access to IRS locations after separating from the contractor.

The Internal Revenue Service Should Take Steps to Determine if Support Services Can Be Managed in a More Cost-Effective Manner

The IRS is currently in the final option year of its original contract for support services and is now preparing to solicit bids for another support services contract. In preparation for solicitation of a new support services contract, the IRS has compiled data trending the types and frequency of work performed by the current contractor. While this trending data may provide the IRS with some beneficial management information, we believe additional steps are needed to determine how support services can be managed in a more cost-effective manner.

Specifically, the IRS has not fully considered whether the continued long-term storage of the 80,606 items in URS-managed storage is either cost beneficial or necessary to the effective delivery of its mission. While storing new or used furniture and equipment in good condition for future use may be a good use of taxpayer funds, the IRS needs to evaluate and determine whether

⁴ There were a total of 176,075 items in warehouse storage, including boxes and paper. Boxes and paper constituted 95,469 items as of September 2010. We excluded boxes and paper from our inventory count as those items are not significant in terms of space used.



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the storage of such items is still cost effective or if the items should be disposed of, especially those items that are aged or that the IRS does not think it will use again. Hindering this evaluation is the lack of comprehensive information regarding why items were placed into storage and if, or when, it is estimated that the items will be used again. Information regarding the age and condition of items stored is also not maintained. We identified that 22,486 (28 percent)⁵ of 80,606 items that reside in contractor-managed warehouse space have been in storage for 18 months or longer and have had no activity. We reviewed 90 randomly selected items placed into storage prior to October 1, 2009, and found that the IRS had not specifically identified any of these items as designated for either a renovation that was currently in process or any renovation or reconfiguration planned for the future.

The contractor provides the IRS a list of items stored in inventory that have not been used for over 10 months, and the IRS periodically distributes this list to be reviewed by REFM personnel. However, without comprehensive information regarding why these items were initially placed in storage and their age and condition, it is difficult for REFM personnel to reliably gauge the need or cost effectiveness of continuing to store these items in the warehouse. In addition, the IRS has not developed procedures to assist REFM personnel in making future decisions regarding whether items should be placed into storage or be disposed of based on an analysis of the costs and expected benefits, including the costs incurred in moving items to storage, storing the items, and returning the items to use. The *Standards for Internal Control in the Federal Government* requires that management identify risks and develop controls to monitor performance measures. Although the support services contract was awarded to provide cost-effective services, sufficient information is not maintained and adequate procedures have not been developed to support this objective.

Based on the approximately 123,000 square feet used by the IRS to store inventory, we determined that 34,194 square feet of warehouse space was devoted to the storage of the 22,486 items in storage for 18 months or longer with no further activity. If these items were not needed, the warehouse space could have been used for other purposes. The amount of time the 22,486 items remained unused, combined with the lack of information on the potential future need, such as the age or condition of the stored items or whether they were designated for a future project, raises significant questions about the likelihood these items will be placed back into use. The rent cost associated with these 34,194 square feet of warehouse space is approximately \$862,000 annually.

Overall, we found the inventory records in two of three warehouse locations we visited to be generally accurate. However, a significant portion of stored inventory at one warehouse location we visited had been removed from the inventory control system due to construction at the

⁵ The IRS provided to us the list of 80,606 items maintained in storage as of September 14, 2010, and the list of items in storage 10 or more months with no activity as of September 1, 2010. The slight difference in the timing of the two lists was not deemed to be material.



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facility. Specifically, the inventory items at 20 of the 30 storage locations that we sampled within this warehouse location had been relocated to an auxiliary storage room within the warehouse. After these items were moved, they were not reinventoried by URS and the new location of the items was not recorded in the inventory listing, increasing the risk that these items could be lost or misplaced. The 20 storage locations we sampled represented 97 inventory items.

Having comprehensive and reliable information regarding all items currently in warehouse storage would allow the IRS to determine if items should continue to be placed in storage in the future. In addition, this information could be used by IRS management to identify any items currently in storage that could be removed and disposed of, as appropriate. Removing unneeded items from warehouse storage could reduce costs associated with contractor management of stored items. Further, it could enable the IRS to potentially use for other purposes space currently devoted to storing unneeded items.

In addition, since the IRS is considering a new contract for support services, the IRS needs to ensure that the next contract will allow the IRS to make cost-effective decisions about the level of support services needed. For example, the IRS may not complete our recommended action to assess the level of support services needed before the next contract is awarded. If the IRS locks into contract terms at a higher level of service than needed, the IRS will be wasting taxpayer funds paying for unneeded services. The new contract should allow for reduced costs if the IRS reduces its level of support services.

Recommendations

The Director, REFM, Agency-Wide Shared Services, should:

Recommendation 1: Perform a nationwide, one-time review of all items currently in warehouse storage to identify any items for possible disposal and ensure all items are recorded on the inventory system.

Management's Response: IRS management agreed with our recommendation and will develop an action plan to evaluate the need for continued storage of existing property. For items that do not require continued storage, REFM personnel will begin the disposal process.

Recommendation 2: Develop procedures requiring responsible REFM personnel at each warehouse storage site to maintain documentation regarding the condition, age, and reason for storage, including expectations for future use, for all future items placed into warehouse storage.

Management's Response: IRS management agreed with our recommendation and plans to develop, implement, and maintain procedures that will capture the condition, age, and reason for storage, including expectations for future use for all items placed into warehouse storage. In addition, to ensure stored furniture will be better tracked and made



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available for reuse, the IRS plans to implement a new process for palletizing complete workstations.

Recommendation 3: Develop procedures to establish criteria to guide future decisions regarding whether items should be placed into storage or be disposed of. The IRS should consider the costs and benefits of placing items in storage, including the costs incurred in moving items to storage, storing them, and returning the items to use as compared to the cost of replacing the items.

Management's Response: IRS management agreed with our recommendation and stated that the IRS is developing procedures to address the need for storage, the length of storage, and the future use of stored property. These procedures will consider current and future budget constraints, the sustainability initiative to increase the reuse and recycling of furniture, costs to store versus to purchase new furniture, and transportation costs.

Recommendation 4: Ensure that the IRS retains flexibility when negotiating the terms of the next support services contract to implement potential cost savings identified as a result of inventory reviews or changes to storage criteria or policies to ensure it does not pay for unneeded support services.

Management's Response: IRS management agreed with our recommendation and plans to continue to routinely monitor for any changes required to the support services contract. All pertinent information regarding required changes will be presented to the Office of Procurement for necessary processing and contract modifications.

Controls Over Contractor Employee Access to Federal Government Assets and Facilities Are Ineffective to Guard Against Unauthorized Access

Overall, we found that controls over contractor employee access to Federal Government assets and sensitive information associated with the program are ineffective to guard against potential unauthorized access. We determined that 124 URS employees had separated from the contractor since the initiation of the contract with the IRS. However, the IRS could not confirm that 116 (94 percent) of the 124 separated employees returned their badges and building access cards as required. The IRS informed us that 37 (32 percent) of the 116 separated contractor employees did not complete required background checks and were not issued badges, and 22 (19 percent) of the 116 separated contractor employees performed work in locations that required the badges to be returned to building security personnel prior to the contractor employee leaving the building. However, the nonissuance or final disposition of badges returned by certain employees could not be fully substantiated due to the lack of reliable records. As a result, these private contractor employees potentially still have access to IRS campus locations and field offices. As these IRS facilities perform duties such as processing taxpayer returns and providing customer service to taxpayers, unauthorized persons may have access to sensitive information and IRS personnel



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performing tax-related duties. We determined that these 116 employees potentially have unauthorized access to 12 IRS campuses and computing centers, as well as to the IRS National Headquarters in Washington, D.C., and the New Carrollton Federal Building. These locations contain 39,659 IRS employees who are placed at risk from the potential presence of unauthorized persons.

At the above locations, contractor employees receive security clearance if they receive required background checks. We selected a sample of 61 contractor employees who performed work and had been granted access to IRS facilities between November 2006 and August 2010 and determined that the IRS properly ensured that all 61 employees received security clearances following required background checks. These contractor employees are granted unescorted access to IRS facilities and receive identification badges and building access cards where required. Contractor employees separating from work on the contract must return to the IRS any IRS facility access media, including identification badges and building access cards.

The local Contracting Officer's Technical Representative (COTR)⁶ is tasked with completing the Separating Contractor Checklist, which documents the return of any facility access media issued to the contractor employee and the dates those actions took place. The checklist and the returned facility access media should be forwarded to the Contractor Security Lifecycle Program (CSLP) Office within the office of the Agency-Wide Shared Services. Further, the CSLP Office is responsible for processing and coordinating activities provided in the Separating Contractor Checklist and serves as the primary point of contact and subject matter expert on the contractor separating process.

Although procedures for local COTRs were developed, the IRS informed us that not all local COTRs were aware of their responsibilities relating to the separation of contractor employees. As a result, local COTRs may not be fully aware of the critical importance of 1) securing access materials from contractor employees upon separation, 2) documenting receipt of these materials on the Separating Contractor Checklist, and 3) promptly returning unneeded facility access media to the CSLP Office. Without a reliable methodology for ensuring that separated employees return their badges and building access cards, the risk of unauthorized access to IRS facilities is significantly increased.

During our field work, the IRS issued a Policy and Procedures Memorandum in March 2011 revising the roles and responsibilities of IRS personnel in regard to contractor employee security issues. The memorandum stated that the COTRs are responsible for completing the Separating Contractor Checklist and submitting it to the CSLP Office, coordinating with the CSLP Office on separation processes, and obtaining documentation from the contractor that access to IRS-owned or controlled facilities and IRS information systems (regardless of location) has been

⁶ The primary role of the COTR is to provide technical direction, monitor contract performance, and maintain an arm's-length relationship with the contractor, ensuring that the Federal Government pays only for the services, materials, and travel authorized and delivered under the contract.



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properly and fully terminated. The memorandum also now requires contractors to directly inform the COTR and the CSLP Office within 1 business day of the separation of an employee. The IRS has incorporated the new requirements into the support services contract. While the new procedures address the weaknesses we identified in this audit, the IRS must ensure that the new procedures are incorporated in COTR procedures and that responsible personnel are trained on the new requirements. In addition, a list of separated contractor employees provided by the contractor to the IRS would enhance the IRS's ability to identify separated contractor employees who were not reported as required through submission of the Separating Contractor Checklist.

Our audit testing focused on contractor employees only and did not include a determination of whether any actual unauthorized access was attempted. We referred our findings regarding the 116 separated contractor employees to the Treasury Inspector General for Tax Administration's Office of Investigations for further inquiry and development.

Recommendations

The Director, REFM, Agency-Wide Shared Services, should:

Recommendation 5: Ensure the required exit procedures that local COTRs should follow for separating contractor employees, including the proper completion of the Separating Contractor Checklist, are incorporated into existing procedures developed specifically for local COTRs performing work under the support services contract. The Director should also ensure training on the required procedures is provided to the COTRs.

Management's Response: IRS management agreed with our recommendation and plans to update the existing Sub-COTR Desk Guide to include the process and procedures to be followed for separating contractor employees. The desk guide will include the requirement to complete the Separating Contractor Checklist, and appropriate training will be provided by the REFM Office.

The Director, Physical Security and Emergency Preparedness, Agency-Wide Shared Services, in coordination with the Director REFM, Agency-Wide Shared Services, should:

Recommendation 6: Reconcile the CSLP Office records to a quarterly list of separated contractor employees (by separation date) provided by the support services contractor. The contractor should first forward the list to the REFM Office, which will then forward the list to the CSLP Office. This requirement should be included in any future support services contract.

Management's Response: IRS management agreed with our recommendation and stated that the current contractor and any follow-on contractors are required to report all separated contract employee information to the CSLP Office in accordance with the new security clauses. In addition, the contractor shall provide a quarterly list of separated contractor employees to the REFM Office for review. Once the REFM Office completes its review, the list will be provided to the CSLP Office for further processing.



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Appendix I

Detailed Objectives, Scope, and Methodology

Our overall objectives were to determine whether the IRS managed outsourced support services in a cost-effective manner and minimized unauthorized access to Federal Government assets and sensitive information associated with the program. To accomplish our objectives, we:

- I. Determined whether the IRS had established effective controls to minimize the costs associated with outsourced office support services.
 - A. Identified the type of information available to IRS management to monitor program costs.
 - B. Determined whether the IRS is making cost-effective decisions regarding the use of contractor-managed storage.
 1. Selected three IRS warehouse facilities managed by the contractor which were used for maintaining IRS assets such as equipment and furniture. We judgmentally selected these 3 sites from a total population of 13 sites to ensure that the sites in our sample contained varied attributes unique to each IRS warehouse facility.
 - a) Selected a random sample of 30 storage locations within each of the 3 warehouse facilities selected and physically verified that items in each location were present and should be stored based on the terms of the contract. We used a random sample to ensure each storage location had an equal chance of being selected. The storage location population size was 999 locations in the Kansas City Campus, 674 locations in the Martinsburg Computing Center, and 171 locations in the Brookhaven Campus.
 - b) Reviewed a random sample of 30 storage locations within each of the 3 warehouse facilities that contained items originally placed into storage prior to October 1, 2009, to determine why the items were placed in storage rather than disposed of. We used a random sample to ensure each storage location had an equal chance of being selected. The storage location population size was 768 locations in the Kansas City Campus, 670 locations in the Martinsburg Computing Center, and 81 locations in the Brookhaven Campus.
 2. Determined whether the IRS performed routine periodic reviews to verify the accuracy of items claimed to be stored by the contractor.



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- C. Determined the reliability of computer processed data by comparing the database lists of overall inventory and aged inventory to identify potential missing records. We determined the data was sufficiently reliable to support our tests.
- II. Evaluated the IRS's process used to assess whether the outsourcing of support services is cost beneficial by reviewing whether the IRS is gathering sufficient management information to provide the basis for future decisions on outsourced support services contracts.
- III. Assessed the process used to minimize unauthorized access to Government assets and sensitive information by contractor employees.
 - A. Assessed whether contractor personnel with access to IRS data and assets have undergone required security clearances.
 - 1. Selected a random sample of 50 contractor personnel with current (not terminated or otherwise separated per IRS records) access to IRS facilities and evaluated whether the sample personnel had a successfully completed background investigation. We used a random sample to ensure each contractor employee had an equal chance of being selected. The population of our sample was 106 employees.
 - 2. Identified contractor employees (11 total contractor personnel) who had current access to the facilities selected in Step I.B.1, but were not selected in the sample of 50 contractor personnel in Step III.A.1, and determined whether all employees had a successfully completed background investigation.
 - B. Evaluated the process used to restrict access to only authorized contractor employees.

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 objectives: the IRS's policies and procedures for managing its support services contract and preventing unauthorized access to IRS facilities. We evaluated these controls by interviewing management, reviewing a sample of items stored at selected sites, and reviewing applicable documentation.



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Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)

Jeffrey M. Jones, Director

Anthony J. Choma, Audit Manager

Seth A. Siegel, Lead Auditor

James S. Mills, Jr., Senior Auditor

Joseph P. Smith, Senior Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Director, Physical Security and Emergency Preparedness OS:A:PSEP
Director, Procurement OS:A:P
Director, Real Estate and Facilities Management OS:A:RE
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Agency-Wide Shared Services OS:A



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:

- Inefficient Use of Resources – Potential; \$861,689 (see page 3).

Methodology Used to Measure the Reported Benefit:

We identified 22,486 (28 percent)¹ of 80,606 items that reside in contractor-managed warehouse space have been in the warehouse for at least 18 months and have not had any activity since they were placed in inventory. The amount of time these items have remained unused, combined with the lack of information on the potential future need, such as the age or condition of the stored item or whether they were designated for a future project, raises significant questions about the likelihood the items will be placed back into use. Based on the approximately 123,000 square feet used by the IRS to store inventory, we determined 34,194 square feet of warehouse space was devoted to the storage of the 22,486 items. The rent cost associated with these 34,194 square feet of warehouse space is approximately \$862,000 annually.²

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 97 inventory items removed from contractor management and inventory control system (see page 3).

Methodology Used to Measure the Reported Benefit:

During a site visitation to one contractor-managed IRS warehouse facility, we identified that a significant portion of stored inventory had been removed from the inventory control system due to construction at the facility. Specifically, the inventory items at 20 of the 30 storage locations within the 1 warehouse location we sampled had been relocated to an auxiliary storage room within the warehouse. After these items were moved, they were not reinventoried by URS and the new location of the items was not recorded in the inventory list, increasing the risk that these

¹ The exact figure for calculation purposes is 0.278.

² Using the IRS's Graphic Database Interface system, we calculated the average rent cost of the 14 IRS facilities used to store inventory at \$25.20 per square foot per year. As a result, the value of the resources which could be available to the IRS for other purposes is \$861,688.80 (\$25.20 multiplied by the 34,194 square feet).



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items could be lost or misplaced. The 20 storage locations we sampled represented 97 inventory items.

Type and Value of Outcome Measure:

- Protection of Resources – Potential; 14 facilities, including 12 IRS campuses and/or computing centers, the IRS National Headquarters in Washington, D.C., and the New Carrollton Federal Building which are potentially at risk for unauthorized access; and 39,659 total IRS employees working and potentially affected in those 14 facilities (see page 6).

Methodology Used to Measure the Reported Benefit:

Using lists provided to us by the IRS, we identified 124 contractor employees that either separated from contractor employment or could not be definitively identified as currently employed based on the information provided in the lists. However, these lists did not contain sufficient information and the IRS could not provide corroborating documentation to confirm that 116 (94 percent) of the 124 separated contractor employees properly returned facility access credentials, such as identification badges and building access cards, upon their separation from employment. As a result, these private contractor employees potentially still have access to IRS campus locations and field offices. URS maintains employees at 14 IRS facilities and, using the IRS's Graphic Database Interface system, we identified 39,659 IRS employees who work at those 14 locations.



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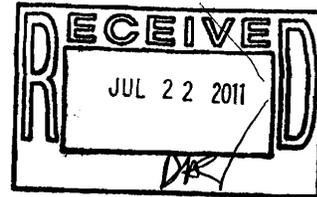
Appendix V

Management's Response to the Draft Report



CHIEF
AGENCY-WIDE
SHARED SERVICES

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



July 22, 2011

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: David A. Grant *David A. Grant*
Chief, Agency-Wide Shared Services

SUBJECT: TIGTA Draft Audit Report #201010001 – “Controls Over Costs and Building Security Related to Outsourced Office Support Services”

Thank you for the opportunity to comment on the subject report. We agree with the recommendations and our corrective actions are listed in the attachment.

I take the findings very seriously and we will ensure that support services are managed in a more cost effective and secure manner. We have already taken steps to identify appropriate corrective actions.

In addition, I recognize the potential for further improvement regarding our controls to prevent separated contract employee access to IRS locations. We are working with the Director, Physical Security and Emergency Preparedness (PSEP) and members of his staff to implement corrective actions and identify other relevant practices that should be adopted within Real Estate and Facilities Management (REFM).

Thank you for your guidance in this effort. If you have any questions, please contact me or J. Stuart Burns, Director, Real Estate and Facilities Management, at (202) 435-6300. For matters concerning evaluation follow-up, please contact Larry Pugh, Office of Strategy and Finance, Agency-Wide Shared Services, at (202) 622-4541.

Attachment



Controls Over Costs and Building Security Related to Outsourced Office Support Services Need to Be Improved

Attachment

RECOMMENDATION #1: Perform a nationwide, one-time review of all items currently in warehouse storage to identify any items for possible disposal and ensure all items are recorded on the inventory system.

CORRECTIVE ACTION: We agree with this recommendation. An action plan will be developed requiring each territory to evaluate the need for continued storage of existing property. For those items that do not require continued storage, Real Estate and Facilities Management personnel will begin the disposal process.

IMPLEMENTATION DATES:

- October 3, 2011 – Development of Action Plan Completed
- December 16, 2011 – Territory Decision on Existing Property Disposition
- January 30, 2012 – Disposal Process Start Date

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, Agency-Wide Shared Services

CORRECTIVE ACTION MONITORING PLAN: REFM will enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.

RECOMMENDATION #2: Develop procedures requiring responsible Real Estate and Facilities Management personnel at each warehouse storage site to maintain documentation regarding the condition, age, and reason for storage, including expectations for future use, for all future items placed into warehouse storage.

CORRECTIVE ACTION: We agree with this recommendation. Real Estate and Facilities Management will develop, implement, and maintain standard operating procedures (SOPs) that will capture the condition, age, and reason for storage, including expectations for future use, for all items placed into warehouse storage. In addition, to ensure stored furniture will be better tracked and made available for re-use, we will implement a new process for palletizing complete workstations.

IMPLEMENTATION DATE: December 31, 2011

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, Agency-Wide Shared Services

CORRECTIVE ACTION MONITORING PLAN: REFM will enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.



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RECOMMENDATION #3: Develop procedures to establish criteria to guide future decisions regarding whether items should be placed into storage or be disposed of. The IRS should consider the costs and benefits of placing items in storage, including the costs incurred in moving items to storage, storing them, and returning the items to use as compared to the cost of replacing the items.

CORRECTIVE ACTION: We agree with this recommendation. There is an initiative underway within Real Estate and Facilities Management to develop standard operating procedures that will address the need for storage, the length of storage, and the future use of stored property. These procedures will consider current and future budget constraints, the sustainability initiative to increase the re-use and recycling of furniture, costs to store versus to purchase new furniture, and transportation costs.

IMPLEMENTATION DATE: December 31, 2011 - Develop and implement standard operating procedures

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, Agency-Wide Shared Services

CORRECTIVE ACTION MONITORING PLAN: REFM will enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.

RECOMMENDATION #4: Ensure that the IRS retains flexibility when negotiating the terms of the next support services contract. This will afford an opportunity to implement potential cost savings identified as a result of inventory reviews or changes to storage criteria or policies to ensure we do not pay for unneeded support services.

CORRECTIVE ACTION: We agree with this recommendation. The National COTR team will continue to routinely monitor for any changes required to the support services contract. All pertinent information regarding required changes will be presented to the office of Procurement for necessary processing and contract modifications.

IMPLEMENTATION DATE: June 30, 2011

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, Agency-Wide Shared Services

CORRECTIVE ACTION MONITORING PLAN: REFM will enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.



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RECOMMENDATION #5: Ensure the required exit procedures that local COTRs should follow for separating contractor employees, including the proper completion of the Separating Contractor Checklist, are incorporated into existing procedures developed specifically for local COTRs performing work under the support services contract. The Director should also ensure training on the required procedures is provided to the COTRs.

CORRECTIVE ACTION: We agree with this recommendation. Real Estate and Facilities Management will update the existing Sub-COTR Desk Guide to include the process and procedures that shall be followed for separating contractor employees. The desk guide will include the requirement to complete the Separating Contractor Checklist. Appropriate training will be provided by Real Estate and Facilities Management.

IMPLEMENTATION DATES:

- Update of Sub-COTR Desk Guide – December 31, 2011
- Training – completed by January 31, 2012

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, Agency-Wide Shared Services

CORRECTIVE ACTION MONITORING PLAN: REFM will enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.

RECOMMENDATION #6: Reconcile the CSLP Office records to a quarterly list of separated contractor employees (by separation date) provided by the support services contractor. The contractor should first forward the list to the Real Estate and Facilities Management Office, which will then forward the list to the CSLP Office. This requirement should be included in any future support services contract.

CORRECTIVE ACTION: We agree with this recommendation. The current contractor and any follow-on contractors are required to report all separated contract employee information to CSLP in accordance with the new security clauses outlined in Policy and Procedures 39.1(c), specifically clause IR1052.204.9006, entitled "Notification of Change in Contractor Employee Employment Status, Assignment or Standing (August 2010)."

The Contractor shall provide a quarterly list of separated contractor employees to Real Estate and Facilities Management for review. Once Real Estate and Facilities Management completes its review, the list will be provided to CLSP for further processing. The quarterly list will provide the following information: Name of Contractor



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Employee; Date of Separation; Date Separating Contractor Checklist (SCC) was completed; and Date SCC was submitted to Physical Security and Emergency Preparedness (PSEP).

IMPLEMENTATION DATE: February 22, 2011 (COMPLETED) - Contract Modification #86 to Policy and Procedures 39.1(c) now requires the contractor to provide a quarterly listing of separated contract employee, commencing the end of the 4th quarter 2011.

RESPONSIBLE OFFICIAL: Director, Real Estate and Facilities Management, Agency-Wide Shared Services

CORRECTIVE ACTION MONITORING PLAN: REFM will enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.