



## Treasury Inspector General for Tax Administration Office of Audit

### CONTRACTOR EMPLOYEES HAVE MILLIONS OF DOLLARS OF FEDERAL TAX DEBTS

Issued on August 30, 2013

## Highlights

Highlights of Report Number: 2013-10-082 to the Internal Revenue Service Deputy Commissioner for Operations Support.

### IMPACT ON TAXPAYERS

The IRS requires that its own employees file their Federal tax returns on time and pay any Federal tax debt. However, TIGTA identified hundreds of employees working for IRS contractors (contractor employees) who were not held to that same standard. The IRS should address tax noncompliance for these contractor employees to ensure that all individuals employed by the IRS, whether as Federal employees or contractor employees, are tax compliant.

### WHY TIGTA DID THE AUDIT

The overall objective of this audit was to determine the effectiveness of the IRS's background investigation process to identify contractor employees who do not file required Federal tax returns or who owe Federal taxes but are not currently on a payment plan.

### WHAT TIGTA FOUND

As of June 14, 2012, 691 (5 percent) of the 13,591 IRS contractor employees reviewed by TIGTA had \$5.4 million in Federal tax debt. These Federal tax debts were either agreed to by the taxpayers or affirmed by the court. Of the 691 contractor employees, 352 were not currently on a payment plan to resolve their tax debt. Most of the contractor employees appeared to have been compliant when their initial staff-like access was granted. However, at least 319 contractor employees had tax debt assessed after they were granted staff-like access, and these employees were not currently on a payment plan. Under IRS policy, these 319 contractor employees were not eligible for staff-like access and should not have had access to IRS facilities, systems, and data.

TIGTA identified five IRS contractor employees who either did not file required tax returns or filed them late but were still granted staff-like access. TIGTA also identified 13 IRS contractor employees who were tax compliant at the time staff-like access was granted but

who subsequently failed to file a required Federal tax return while assigned to an active IRS contract.

TIGTA identified weaknesses in the IRS's existing practices that allowed contractor employees with Federal tax debts and instances of nonfiling to go undetected after staff-like access was initially granted because the IRS does not continuously monitor contractor employee tax compliance in the same way it monitors IRS employee tax compliance. Instead, the IRS reviews contractor tax compliance only every five years or if the contractor employee has longer than a two-year break in service.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS continuously monitor contractor employee tax compliance similar to the way IRS employee Federal tax compliance is monitored. In addition, TIGTA recommended that when revalidating contractor employee staff-like access after a break in service of longer than two years, the IRS should complete a tax compliance check. Finally, TIGTA recommended that the IRS further evaluate the contractor employees TIGTA identified as potentially noncompliant and promptly bring those individuals into compliance or remove them from IRS contracts.

In their response, IRS management agreed with our recommendations and plans to establish and implement policies to ensure that contractor employee tax compliance is continuously monitored and background clearance revalidations include a tax compliance component. In addition, the IRS plans to further research and carefully evaluate the contractor employees identified in this report as potentially noncompliant and refer them for additional action as appropriate. Finally, the IRS plans to convene a team to fully explore all viable options to address any future tax noncompliance.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2013reports/201310082fr.pdf>.