TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Office of Inspections and Evaluations

Controls Over Pocket Commissions Must Be Improved

August 20, 2018

Reference Number: 2018-IE-R005

Phone Number | *202-622-6500*
E-mail Address | *TIGTACommunications@tigta.treas.gov*
Website | *http://www.treasury.gov/tigta*

Highlights

Highlights of Report Number: 2018-IE-R005 to the Commissioner of Internal Revenue Service.

WHY TIGTA DID THIS STUDY

In two prior reports (issued in December 2011 and June 2016), TIGTA found that the IRS could not account for all issued non-enforcement pocket commissions (commissions). Non-enforcement commissions evidence the holder's specific authority and are an acceptable form of Government identification that some IRS employees are required to use when conducting business with taxpayers. According to IRS records as of June 20, 2017, there were 10,550 active commissions assigned to IRS employees. Since the loss of control of a commission increases the risk of misuse or fraud, the objective of this evaluation was to determine if the controls over non-enforcement commissions are adequate and working as intended.

IMPACT ON TAXPAYERS

It is vital that the public have confidence that a person representing himself or herself as an employee of the IRS produce a valid commission that identifies the holder and his or her specific authority to conduct business with the taxpayer. The loss of control over a pocket commission increases the risk that it could be fraudulently used in a tax collection scam, to obtain official documents, or to gain entry to a Government office. Commissions can also be used to clear Transportation Security Administration airport screening. Recently, a former IRS employee was charged with and pled guilty to impersonating a Federal officer after using an expired commission as identification after committing traffic violations.

WHAT TIGTA FOUND

TIGTA found that the controls over non-enforcement commissions are ineffective, and as a result, the IRS cannot account for all issued commissions. TIGTA surveyed 172 employees eligible for a commission who IRS records do not show as having been assigned one. Forty-nine of these employees responded that they had a commission. Based on our result from this statistical sample, TIGTA estimates that 2,996 IRS employees may have commissions that are not recorded in official IRS records. TIGTA also sampled a second set of IRS employees shown as holding an active commission and found that the information in the inventory did not match the information the IRS reported to TIGTA for 33 employees. Based on this statistical sample, TIGTA estimates that 2,024 (19 percent) active commission records may be inaccurate. Additionally, TIGTA found that the required supporting documents to record approval of commission issuance, completion of training on the use of the commission, and physical receipt of the commission were not available for the majority of the sample reviewed.

Several factors contribute to the current conditions TIGTA observed. For example, the requirement for an annual reconciliation of commission records has weakened over the years. Additionally, manually obtaining data from or inputting data into multiple standalone systems increases the risk for errors and omissions. Further, the lack of guidance to follow up on obtaining required supporting documents should be addressed.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief, Facilities Management and Support Services, conduct a physical inventory to establish an accurate starting point for future control over commissions. The Chief should also reinstate the requirement for an annual inventory and enhance procedures for issuing commissions and obtaining and maintaining commission documentation. The IRS agreed with all of our recommendations; however, many are not expected to be completed until early Calendar Year 2020. Although the IRS has committed to some interim steps as well as longer term actions, TIGTA is concerned that the IRS does not and for years has not had effective control over pocket commissions. Even if the recommendations are ultimately implemented, it will take the IRS nearly two years to implement the necessary system of controls.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

August 20, 2018

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE SERVICE

FROM: Gregory D. Kutz
Acting Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Evaluation Report – Controls Over Pocket Commissions Must Be Improved (# IE-17-008)

This report presents the results of our evaluation to determine if controls over non-enforcement commissions were adequate and working as intended. This evaluation was a follow-up on the recommendations made in two prior Treasury Inspector General for Tax Administration reports.

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

Copies of this report are being sent to the IRS managers affected by the report recommendations. If you have any questions about this report, you may contact me or Kevin P. Riley, Director, Office of Inspections and Evaluations.

Table of Contents

Abbreviations

ICAM	Identity, Credential, and Access Management
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
PCSS	Pocket Commission and Smart ID Support
PDS	Personal Identity Verification Data Synchronization
TIGTA	Treasury Inspector General for Tax Administration

Background

> ***Pocket commissions are sensitive identification documents, the loss or misuse of which could have a detrimental effect on the IRS and taxpayers.***

Non-enforcement pocket commissions (hereafter referred to as commissions) evidence an Internal Revenue Service (IRS) employee's specific authority and are an acceptable form of Government identification that some IRS employees are required to use when they conduct business with taxpayers and their representatives and with Federal, State, local, or foreign officials. As such, records of their creation, loss, and deactivation must be properly maintained. Commissions must be issued only to employees authorized to hold them, and employees must timely report any lost, stolen, or inadvertently damaged commissions. From October 1, 2014, through May 15, 2017, the Treasury Inspector General for Tax Administration's (TIGTA) Office of Investigations received 85 reports of lost or stolen commissions involving IRS employees. During that period, four investigations of lost or stolen commissions were conducted. More recently, a former IRS employee was charged with and pled guilty to impersonating a Federal officer after using an expired commission as identification after committing traffic violations. The former IRS employee reported the commission stolen.

Facilities Management and Security Services is responsible for all aspects of the program to create and control non–enforcement commissions. Within the Identity, Credential, and Access Management (ICAM) function, the Pocket Commission and Smart ID Support (PCSS) unit physically generates commissions, maintains records associated with each, and houses and safeguards the material used to produce commissions. The Personal Identity Verification Data Synchronization (PDS) is the authoritative source used by the PCSS unit for documentation of commission records and information.

TIGTA identified issues with the way the IRS managed and tracked its inventory of unassigned and assigned non–enforcement commissions.[1] Specifically, in a December 2011 report, the Office of Inspections and Evaluations found that unassigned commissions were not well controlled; the inventory system was fragmented, incomplete, and inaccurate; and the hardcopy accountability records over commissions were not well prepared or maintained.[2] Additionally, in a June 2016 report, TIGTA reviewed IRS policies and procedures designed to provide reasonable assurance that physical access to Government facilities is secure when employees separate from

[1] Law enforcement pocket commissions provided to IRS Criminal Investigation special agents are not handled by the PCSS staff.

[2] TIGTA, Ref. No. 2012-IE-R001, *Controls and Accountability Over Pocket Commissions* (Dec. 2011).

the IRS.[3] TIGTA found that the IRS did not know how many non–enforcement commissions had been issued and could not verify that all employees who separated from the IRS returned their pocket commission if they had been issued one.

This evaluation was performed in the PCSS unit in the Memphis, Tennessee, Campus and TIGTA interviewed Facilities Management and Security Services staff during the period May 2017 through April 2018. We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency Quality Standards for Inspection and Evaluation. This evaluation was limited to non–enforcement pocket commissions. Detailed information on our objective, scope, and methodology is presented in Appendix I.

[3] TIGTA, Ref. No. 2016-10-038, *Access to Government Facilities and Computers Is Not Always Removed When Employee Separate* (June 2016).

Results of Review

TIGTA determined that even after concerns about the controls over commissions were first reported in December 2011 and then in June 2016, some duplicate records exist in the PDS, many records are incomplete or contain incorrect data, and many IRS employees reported that they had an active commission although a record of it was not in the PDS. As of June 20, 2017, PCSS staff reported that 19,828 commission records were listed in the PDS inventory control system. Of these, 10,550 commissions were deemed active and held by IRS employees whose managers determined that they had a valid need for a commission to perform their assigned duties. The other 9,278 commissions were considered inactive.

The Internal Revenue Service Still Has Incomplete Commission Inventory Records

From a statistical sample[4] of 172 employees eligible to hold a commission but not shown as having an active one in IRS's PDS inventory control system, 49 employees indicated that they were issued and possessed a commission when they replied to our survey.[5] Twelve of these 49 employees reported that their commission was issued prior to 2008 and does not have an expiration date. TIGTA estimates that 2,996 IRS employees may have a commission that is not recorded in the IRS's system of record (PDS) and therefore the IRS is unaware of the commission.[6] From a separate statistical sample of 172 known commission holders, we identified 33 whose information on their commission did not match commission information maintained by the IRS.[7] From this, TIGTA estimates that 2,024 (more than 19 percent) of the 10,550 active commission records may be unreliable.[8] The loss of control over a pocket commission increases the risk that it could be fraudulently used in a tax collection scam, to obtain official documents, or to gain entry to a Government office or even to clear Transportation Security Administration airport screening.

---

[4] See Appendix I for our sampling methodology.

[5] We conducted a survey of employees eligible to hold commissions. We received 137 responses to the survey. For the remaining 35 employees, we did not collect a survey for reasons not limited to the employee separated from the IRS, we could not open the response due to email encryption issues, or the employee did not respond to our follow-up efforts.

[6] The point estimate projection is based on a two-sided 95 percent confidence interval from a total population of 10,518 employees. We are 95 percent confident that the point estimate is between 2,307 and 3,765 employees.

[7] We also conducted a survey of known commission holders. We received 163 surveys. For the remaining nine employees, we did not collect a survey from the employee for the same reasons noted in the footnote above.

[8] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 1,439 and 2,724 commission records. The percentage has been rounded down.

As TIGTA described in the December 2011 report, commissions were not well controlled; the assigned inventory system was incomplete and inaccurate; and at that time, commissions did not contain expiration dates. IRS management agreed to address these issues, including performing an annual reconciliation of issued commissions and reissuing commissions with expiration dates, and has reported that all corrective actions were completed. However, we determined as a result of this current evaluation that IRS efforts to address these issues were not fully successful, as evidenced by commission records that are unreliable and some employees still possessing commissions without expiration dates.

The Department of the Treasury requires that it and all its bureaus maintain appropriate controls to account for issued, returned, lost, stolen, canceled, awarded, and destroyed commissions. The IRS has documented procedures in its Internal Revenue Manual (IRM) as well as unit operating instructions intended to ensure that the IRS complies with the Department of the Treasury requirements. However, we found that over the course of several years, the requirement to annually reconcile commission records has weakened. Further, inaccurate commission records, PDS design limitations, and inadequate documentation to support commission requests and acceptance should be addressed.

Commission reconciliation requirements have weakened and need to be enhanced

In Calendar Year 2014, the requirement for an annual reconciliation of issued commission records was dropped, and since then, reconciliations have not been required. We believe the lack of this requirement has contributed to the conditions we found. The 2008 and 2013 version of the IRM[9] required that annually, and on a random basis, the accuracy of the commission records be reconciled by the issuing office against the inventory files. The reconciliation was intended to ensure that employees do not possess more than one commission and that issued commissions were accounted for. However, in Calendar Years 2012 and 2013, the annual reviews were not completed. In September 2014, the IRM[10] requirement was modified to "… conduct annual audits/reviews of the APC[11] processes and [sic] records."

In order to gain effective control over commissions, the IRS must quickly determine which of the employees shown in the PDS as having an active commission actually still have it in their possession. While doing so, the IRS must also validate that the information printed on the commission is accurately reflected within the PDS and that the employee still has a valid need to have the commission to perform his or her job. Further, the IRS should also attempt to determine which IRS employees might hold commissions that are not recorded in the PDS and

[9] Internal Revenue Manual 10.2.6, *Non-Enforcement Pocket Commissions* (September 30, 2008, and September 6, 2013, respectively).

[10] Internal Revenue Manual 10.2.6, *Non-Enforcement Pocket Commissions* (September 12, 2014).

[11] In mid-2014, the APCs (Area Processing Centers) were combined into a single APC located in Memphis, Tennessee.

similarly determine if they continue to need a commission. These are critical steps to attempt to account for the commissions currently held by employees and improve the accuracy of the information in the PDS. Without such efforts, the IRS will continue to be hampered by inaccurate and incomplete records and will not be able to meet the expectations defined by the Department of the Treasury. Once the initial reconciliation is completed, the IRS should also reinstate the requirement for annual reconciliations of issued commissions to ensure that employees have the commission assigned to them and that the PDS records are complete and accurate.

Recommendations

The Chief, Facilities Management and Security Services, should:

Recommendation 1: Require a full physical inventory of all commission records with the objective of making the PDS a complete and accurate system of records for all non-enforcement commissions.

> ***Management's Response:*** The IRS agreed with our recommendation and plans to engage with business units to advise them of upcoming commission inventory activities and by January 2019 to develop and implement a plan to conduct a full inventory of all commission records. Longer term, the IRS plans to complete an initial reconciliation by July 2019 and plans to certify the commission inventory by February 2020.

Recommendation 2: Attempt to determine which IRS employees may hold commissions that are not recorded in the PDS and update the PDS as needed.

> ***Management's Response:*** The IRS agreed with our recommendation and in the near term plans to engage with business units to identify all employees whose current or former positions may have justified their receiving commissions and reconcile which of those employees have pocket commissions recorded in PDS. The IRS plans, within one year, to identify employees with pocket commissions that are not recorded in PDS or don't contain serial numbers or an expiration date. By February 2020, the IRS plans to ensure that out-of-date commissions are revoked, provide new commissions to staff requiring them, and update PDS records as needed.

Recommendation 3: Subsequent to the establishment of a complete and accurate record of non-enforcement commissions in the PDS, reinstate the requirement for an annual reconciliation to account for issued commissions and ensure that PDS records remain complete and accurate.

> ***Management's Response:*** The IRS agreed with our recommendation and plans, by May 2020, to revise and update policy in IRM 10.2.6, *Non-Enforcement Pocket Commission*, to reinstate an annual reconciliation of issued commissions to ensure that PDS records remain complete and accurate.

Inspections and Evaluations Comment: Although the IRS has committed to some interim steps as well as longer term actions, TIGTA is concerned that the IRS does not have and for years has not had effective control over pocket commissions. Even if TIGTA's recommendations are ultimately implemented, it will take the IRS nearly two additional years to implement the necessary system of controls.

Inaccurate PDS Records, PDS Limitations, and Inadequate Commission Documentation Should Be Addressed

Most PDS errors are caused by the cumbersome process for producing a commission

Employee survey responses and documentation that TIGTA reviewed did not match commission information recorded in the PDS for 33 of 172 sample employees shown to have an active commission.[12] Of those 33 employee commission records, 20 records had inaccuracies due to manual data entry errors, 11 records had errors due to integration of employee data in the PDS from HRConnect,[13] and two records were inaccurate due to a combination of both. Figure 1 provides a summary of PDS record errors identified.

Figure 1: Summary of PDS Record Errors

Manual Input Errors		PDS Design Errors	
Issuance and Expiration Dates Wrong	16	Last Name Wrong	7
Issuance Date or Expiration Date Wrong	2	Last Name Wrong and More Than One Active Record for Employee	2
Serial Number Wrong	1	Last Name and Job Title Wrong	1
No Commission Issued	1	Job Title Wrong	1
Subtotal:	***20***	***Subtotal:***	***11***
Combination of Manual Input and PDS Design Errors			
Issuance Date, Expiration Date, and Last Name Wrong			1
Omitted Record for Current Commission and Active Record for Serial Number Issued Under Different Last Name			1
Subtotal:			***2***
Total of PDS Record Errors: 33			

Source: TIGTA analysis of Velocity[14] *and PDS records.*

[12] Of 172 employees, 163 provided complete responses to their pocket commission survey.
[13] HRConnect is the human resources system owned by the Department of the Treasury.
[14] Velocity is a software used for initiating, providing, and managing personal identity information, including credentials, for Department of the Treasury and IRS employees.

The cause identified for most of the errors is the cumbersome process required to produce and document the production of a commission. The process involves manually obtaining data from or inputting data into multiple standalone systems. Also, some of the errors are attributed to PDS design limitations that result in incomplete or inaccurate commission records that are integrated into the Program Report used for program monitoring.

Manual Input Errors

We found 20 PDS commission inventory records that were inaccurate due to manual input errors. For 16 records, both the issue and expiration dates were wrong. Additionally, we found that one record contained the wrong issue date, one contained the wrong expiration date, and one had a serial number in the PDS that did not match what was printed on the commission. We also found one entry for an active commission that was not issued.

When the PCSS staff create a commission, the serial number, issuance date, and expiration date are manually entered into the Velocity system for printing on the commission. Once printed, the PCSS staff must also create an active inventory record in the PDS and input the same information. However, sometimes the PCSS staff will manually enter a different serial number or date into the PDS from what is printed on the commission or will mistakenly create an active PDS record for the wrong employee.

Before commissions are issued, the on-site PCSS unit manager is required to conduct and document a quality review of each commission. The commissions are reviewed for print quality and assurance that the PDS record has been added or updated. While not expressly required as part of this review, we believe that the PCSS unit manager should also ensure that the information recorded in the PDS reflects what is printed on the commission. We believe this would prevent some of the errors we found.

Recommendation

Recommendation 4: The Chief, Facilities Management and Security Services, should consider expanding the scope of the review the PCSS unit manager conducts or implement some other review to verify that the information recorded in the PDS reflects the information printed on the commission.

> ***Management's Response:*** The IRS agreed with our recommendation and plans, by September 2018, to expand the scope of the PCSS unit manager review or implement some other review verifying that the information recorded in PDS is correct.

PDS Design Limitations

We found that nine PDS commission inventory records were inaccurate because the employee's legal name and/or job title was reflected in the PDS instead of what was actually on the commission. Specifically, there were seven name mismatches, one job title mismatch, and one combination name and job title mismatch. Further, we found that the PDS had multiple records of active commissions for two employees, indicating that each employee was issued each commission under different names and the PCSS staff did not correctly update PDS records.[15]

By design, PSCC staff cannot directly enter an IRS employee's name and job title printed on the commission into the PDS. Rather, that information is researched and pulled from up-to-date employee identity information available from HRConnect. Therefore, the PDS commission inventory record reflects the employee's name from HRConnect, which can be different from what is printed on the commission. For example, a name mismatch can occur when an employee legally changes his or her last name or job title and does not request that a new commission be issued with the new information. In addition, an employee may have multiple records of active commissions in the PDS if he or she was issued separate commissions under different names. This can occur if the employee does not return a commission issued under their previous name (or job title) and the PCSS staff does not update the status of the commission controlled in the PDS under the employee's current name.

As a hypothetical example:

> *A Revenue Officer named Jane Doe was issued a commission on January 15, 2017, that will expire on January 15, 2022. Jane's commission was printed with her full name, Jane Doe, and job title of Revenue Officer. Jane legally changed her name to Jane Smith and changed jobs to a Revenue Agent. However, Jane did not request a new commission as required and kept her commission issued under her previous name and job title. Jane's up-to-date employee information in HRConnect shows her name as Jane Smith and title as Revenue Agent. Therefore, the PDS record for Jane's active commission will now reflect her serial number; January 15, 2017, issue date; and January 15, 2022, expiration date but will be displayed in the PDS under Jane Smith, Revenue Agent, rather than Jane Doe, Revenue Officer.*
>
> *Additionally, if Jane did request a new commission as required, the PDS will reflect multiple records of active commissions issued to Jane Smith—one commission issued to Jane Smith (newly reissued commission) and the commission issued to Jane Doe on January 15, 2017. This can occur if the PCSS staff does not recognize that Jane Doe and Jane Smith are the same employee and she actually has multiple commissions or she did not return the original one.*

[15] We reviewed all available documentation for these two employees. We did not identify the employee's name printed on the oldest commission. Employees only responded to survey questions regarding their newest commission. However, both of these employees indicated in their survey responses that they returned their older commissions to the issuing office. We concluded, based on all documentation we reviewed, that the oldest commissions were issued under a different last name and the PCSS staff failed to correctly update PDS records.

Combination of Manual Entry Error and PDS Design Limitations

We found two PDS commission inventory records that were inaccurate because of a combination of manual entry errors and PDS design limitations. We found one commission record with a wrong issuance date, wrong expiration date, and wrong last name. One other commission record was omitted from the PDS for the newest commission issued to this employee, while the active record was for a commission issued under the employee's prior name.

The Program Report Is Affected by PDS Design Errors

We found that PDS design errors are reflected in the Program Report used by the PCSS unit to monitor the commission program. The report integrates the serial number, issuance date, expiration date, and commission status[16] in the PDS with the employee's legal name, job title, job series, manager's name, and post-of-duty address as shown in HRConnect. The report is produced by the Department of the Treasury staff and is shared with the IRS business operating divisions to identify employees with active commissions, expiring commissions that require renewal, and commissions that have already expired.

As previously noted, some employee names and job titles shown on the report may not match the name and job title originally printed on a commission. Additionally, if an employee does not have an assigned manager in HRConnect, the Program Report will exclude a commission record for the employee. As a result, the IRS may not be able to determine if an employee has changed his or her legal name or job title and returned their commission as required or verify that an employee has been issued a commission.

Automated PDS status changes

For commissions issued after 2008 that contain expiration dates, the PDS automatically changes the status of an active commission to *inactive – revoked* when the commission expiration date has passed. Current IRM guidance holds the employee responsible for returning the expired commission to the PCSS unit. However, the IRM does not explain who is responsible to follow up with the employee to ensure that the commission is obtained or how soon after the change in status the follow-up should occur. Without clear guidance on how and when to follow up on these instances, the IRS runs the risk that a commission may not be recovered and destroyed as required.

[16] The status of a commission is recorded as either active or inactive. A reason must be given in the PDS for inactive commissions deemed cancelled, destroyed, lost, memento, revoked, or stolen.

Recommendations

The Chief, Facilities Management and Security Services, should:

Recommendation 5: Consult with Department of the Treasury officials to determine the feasibility of modifying the PDS to include all of the information printed on issued commissions.

> **Management's Response:** The IRS agreed with our recommendation and, by February 2019, plans to develop requirements to modify the PDS record to include all the information printed on the commissions and engage with the Department of the Treasury regarding the feasibility and cost of modifying the PDS system. Additionally, the IRS will explore whether the PDS can be used to send automated expiration notices to commission holders.

Recommendation 6: Consult with Department of the Treasury officials to ensure that the Program Report is complete and includes all commission records in the PDS.

> **Management's Response:** The IRS agreed with our recommendation and plans to work with the Department of the Treasury to evaluate if the Program Report contains all serialized commission records in the PDS and to identify reporting issues that need correction by February 2019. The IRS also plans to work with the Department of the Treasury to ensure that the report is complete and that it contains all commission records by February 2020.

Recommendation 7: Implement appropriate procedures for following up with employees who have not returned expired commissions.

> **Management's Response:** The IRS agreed with our recommendation and plans, by January 2019, to develop follow-up procedures and, by March 2019, to implement them and follow up with employees who have not returned expired commissions.

Improvements in record documentation are still needed

We reviewed the commission folders for the 163 employees with active commissions who provided complete responses to the survey. Only 10 (6 percent) folders contained all of the documents required to be retained for each commission issued.[17] Each folder should contain: 1) the approved request for the commission (Form 13716-B, *Non-Enforcement Pocket Commission Qualification and Request*, or equivalent); 2) an acknowledgment that the employee completed the required training on the responsibilities of holding a commission and received the commission (Form 14436, *Receipt for Pocket Commission and Acknowledgment of Training*);[18]

---

[17] Supporting documents submitted after the consolidation of the PCSS unit are maintained as electronic copies. Supporting documents submitted prior to the consolidation are maintained as hard copies at the PCSS office.
[18] Form 14436 was effective as of December 2012. We did not include this as a requirement for commissions issued prior to December 2012.

and 3) a Form 3210, *Document Transmittal*, documenting that the commission was mailed to, and received by, the intended IRS employee.

Ninety-two folders (56 percent) included a Form 13716-B or equivalent indicating that the employee was qualified for and requested the commission. For the remaining folders, we could not determine the reason the form was not included beyond that it was not saved to the employee folder.

Completed commissions are shipped to the requesting IRS employee along with a copy of the Form 14436 and Form 3210. The employee has five business days to sign and return both forms to the PCSS unit. However, only 37 (23 percent) of the 163 folders included the Form 14436 indicating that the employee completed training and acknowledged receipt of the commission. Thirteen additional folders included a copy of the Form 3210 returned by the employee. Therefore, 50 folders (31 percent) included employee acknowledgment of receiving the commission.

The documentation of training and employee acknowledgment of receipt was incomplete because the IRM and various other guidance used by the PCSS staff do not contain explicit procedures on when and how to follow up on Forms 14436 or Forms 3210 that are not returned by the employee. Further, PCSS staff stated that they relied on the assumption that the employee would contact the PCSS unit if the commission was not received.

Recommendation

Recommendation 8: The Chief, Facilities Management and Security Services, should implement appropriate procedures for following up with employees who have not returned required forms within established time frames.

> ***Management's Response:*** The IRS agreed with our recommendation and plans, by January 2019, to develop procedures for following up with employees who have not returned required forms within established time frames. The IRS plans to implement the procedures by March 2019.

Appendix I

Detailed Objective, Scope, and Methodology

The objective of this evaluation was to determine if the controls implemented by the IRS over non-enforcement pocket commissions are adequate and working as intended. To accomplish this objective, TIGTA:

I. Assessed whether controls were implemented and designed to provide reasonable assurance that unassigned pocket commission inventory and supplies were safeguarded and pocket commissions were properly issued.

   A. Reviewed the IRM, various other guidance, processing and operating instructions (including the Pocket Commission Production Manual and ICAM Field Guidance) to identify controls for non-enforcement pocket commissions.

   B. Interviewed PCSS management and employees to identify controls, procedures, and requirements used to process and safeguard pocket commissions.

II. Determined whether pocket commission inventory controls were implemented and provide reasonable assurance that non-enforcement pocket commissions are properly issued and accounted for.

   A. Obtained from the IRS all pocket commission records from the PDS as of June 20, 2017.

   B. Assessed the pocket commission records and determined that the data were reliable for our purpose by validating the data fields containing dates, names, *etc*., and matching records to the PDS pocket commission module. We found that various attributes of the pocket commission records contained errors; however, we determined that the data were reliable to perform additional evaluation tests to verify the accuracy and completeness of pocket commission inventory records.

   C. Selected a statistical sample of 172 active pocket commission holders from a population of 10,550 PDS records.[1] We used the following criteria: a 95 percent confidence level, a 10 percent expected error rate, and a ± 5 percent precision rate.

   D. Designed and sent a survey to the IRS employees in our sample to test the accuracy of the data recorded in the PDS and determine if pocket commissions were properly issued and accounted for. We determined if the information printed on the pocket

[1] A contract statistician assisted with developing the sample plans and projections of two statistical samples.

commission (name, job title, issuance date, expiration date, *etc*.) matched the information recorded in the PDS.

E. Interviewed PCSS staff and reviewed documentation for active pocket commission holders in our statistical sample. We requested copies of Form 13716-B, *Non-Enforcement Pocket Commission Qualification and Request*; Form 14436, *Receipt for Pocket Commission and Acknowledgment of Training*; and Form 3210, *Document Transmittal*, for 163 IRS employees in our sample noted as having an active pocket commission to determine compliance with recordkeeping standards. We also requested additional documentation depending on the status of the commission.

F. Selected a statistical sample of 172 employees from a population of 10,518 IRS employees who were eligible for a pocket commission based on their job series and position but who were not shown in the PDS as having an active commission. We used the following criteria: a 95 percent confidence level, a 10 percent expected error rate, and a ± 5 percent precision rate.

G. Designed and sent a survey to the IRS employees in our sample to determine if they had a pocket commission and to test the accuracy of the data recorded in the PDS. We determined if pocket commissions were properly issued and accounted for.

III. Assessed and reviewed information and other controls related to timeliness and managerial oversight of the pocket commission program.

A. Reviewed information related to lost, stolen, or improperly used pocket commissions obtained from the TIGTA's Office of Investigations for Fiscal Years[2] 2015, 2016, and through May 15, 2017.

B. Obtained and reviewed the Annual Program Assessment quality reviews for Fiscal Years 2014 through 2017 and other quality control/oversight documents.

[2] Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

Appendix II

Major Contributors to This Report

Kevin Riley, Director
Meredith McDaniel, Supervisory Auditor
Earl Charles Burney, Senior Program Analyst
Kyle Bambrough, Auditor
Michelle Griffin, Evaluator

Appendix III

Report Distribution List

Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Chief, Facilities Management and Support Services
Deputy Chief, Facilities Management and Support Services
Director, Office of Audit Coordination

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:

- Reliability of Information – Potential; 2,996 incomplete or missing PDS commission records (see page 3).

Methodology Used to Measure the Reported Benefit:

TIGTA reviewed a statistically valid sample of 172 of 10,518 IRS employees who were eligible for a commission based on their job series and position but who were not shown in the PDS as having an active commission as of June 20, 2017. TIGTA determined that PDS records did not exist for 49 employees who indicated in response to a survey that they were issued and still possess a commission. TIGTA estimates that the PDS may have missing or incomplete records for 2,996 IRS employees who may have a commission of which IRS management is unaware.[1]

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 2,024 inaccurate PDS commission records (see page 3).

Methodology Used to Measure the Reported Benefit:

TIGTA reviewed a statistically valid sample of PDS records for 172 of 10,550 IRS employees with active commissions as of June 20, 2017. TIGTA compared the information recorded in the PDS to IRS employee responses to a survey and other commission documentation provided by the PCSS unit. TIGTA determined that 33 PDS records did not match information printed on the employee's commission. TIGTA estimates that 2,024 (19 percent) of the 10,550 active commissions records may be inaccurate and unreliable.[2]

[1] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 2,307 and 3,765 employees. We contracted the services of a statistician in selecting the sample and interpreting the results.
[2] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 1,439 and 2,724 commission records. The percentage has been rounded down. We contracted the services of a statistician in selecting the sample and interpreting the results.

Appendix V

Management's Response

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

FACILITIES
MANAGEMENT &
SECURITY SERVICES

June 20, 2018

MEMORANDUM FOR GREGORY D. KUTZ
ACTING DEPUTY INSPECTOR GENERAL FOR
INSPECTIONS AND EVALUATIONS

FROM: Richard L. Rodriguez
Chief, Facilities Management & Security Services

SUBJECT: Draft Evaluation Report – Controls Over Pocket Commissions Must Be Improved (# IE-17-008)

Thank you for the opportunity to review and comment on the subject draft evaluation report. We are committed to necessary corrective actions to ensure that non-enforcement pocket commissions are properly accounted for and controlled. Your review and recommendations will assist us in that effort.

Since the 2011 audit of pocket commissions, we have made several program improvements to address many of the Treasury Inspector General for Tax Administration's (TIGTA) concerns. First, all commissions currently issued have serial numbers and expiration dates and are accounted for on a Treasury system called Personal Identity Verification Data Synchronization (PDS), and we have ensured that the pocket commission records correspond to the IRS's authoritative personnel record system, HR Connect. Second, we have relocated and consolidated our operations to Maryland to provide more direct management oversight and to streamline the process. Third, we recently received hiring authority, allowing us to increase our staff to both meet the needs of the program and implement the recommended process improvements. Finally, we have started the process to reconcile all our commissions, and we are revising our policies and controls to provide reasonable assurance that all commissions will be tracked and accounted for going forward. However, we agree that more work needs to be done, and we concur that more corrective actions are necessary for continued improvement. We agree with all eight of your recommendations and will continue to work to develop and implement the corrective actions detailed in our attached response. We also will continue to consult with Treasury on improvements to their PDS system wherever necessary.

Finally, we have reviewed and concur with TIGTA's calculations of measurable benefits and believe that implementation of the attached corrective actions will address them.

2

We appreciate the continued support and assistance provided by your office. If you have any questions please contact me at (202) 317-4480, or a member of your staff may contact David Abercrombie, Associate Director, FMSS Security Policy, at (240) 613-6681. For matters concerning audit procedural follow-up, please contact Serrina D. Winslow, FMSS Audit Analyst, at (202) 317-3745.

RECOMMENDATION #1:
The Chief, FMSS, should require a full physical inventory of all commission records with the objective of making the PDS a complete and accurate system of records for all non-enforcement commissions.

CORRECTIVE ACTION #1a:
We agree with this recommendation. By September 15, 2018, the Chief, FMSS, will engage with Business Units with commission holders to advise of upcoming commission inventory activities.

CORRECTIVE ACTION #1b:
We agree with this recommendation. By January 15, 2019, the Chief, FMSS, will develop and implement a plan to conduct a full inventory of all commission records.

CORRECTIVE ACTION #1c:
We agree with this recommendation. By July 15, 2019, the Chief, FMSS, will complete the initial reconciliation of commission records.

CORRECTIVE ACTION #1d:
We agree with this recommendation. By February 15, 2020, the Chief, FMSS, will certify the commission inventory in PDS.

IMPLEMENTATION DATE:
1a: September 15, 2018
1b: January 15, 2019
1c: July 15, 2019
1d: February 15, 2020

RESPONSIBLE OFFICIAL:
Chief, Facilities Management and Security Services

CORRECTIVE ACTION MONITORING PLAN:
Corrective actions are entered into the Joint Audit Management Enterprise System (JAMES) and are monitored monthly through completion.

RECOMMENDATION #2
The Chief, FMSS, should attempt to determine which IRS employees may hold commissions that are not recorded in PDS and update PDS as needed.

CORRECTIVE ACTION #2a:
We agree with this recommendation. By September 15, 2018, the Chief, FMSS, will engage with Business Units with commission holders to identify all employees whose current or former positions may have justified their receiving commissions.

CORRECTIVE ACTION #2b:
We agree with this recommendation. By January 15, 2019, the Chief, FMSS, will reconcile which of those employees have pocket commissions recorded in PDS.

CORRECTIVE ACTION #2c:
We agree with this recommendation. By July 15, 2019, the Chief, FMSS, will work through the Business Units to determine which of the remaining employees have pocket commissions that are not recorded in PDS and to identify any legacy, non-serialized and non-expiring commissions.

CORRECTIVE ACTION #2d:
We agree with this recommendation. By February 15, 2020, the Chief, FMSS, will ensure that those previously-unrecorded commissions are properly recorded in PDS and are up-to-date (i.e., revoking legacy commissions for employees who no longer need them and replacing non-expiring legacy commissions with serialized commissions with printed and tracked expiration dates for those whose position require commissions).

IMPLEMENTATION DATE:
2a: September 15, 2018
2b: January 15, 2019
2c: July 15, 2019
2d: February 15, 2020

RESPONSIBLE OFFICIAL:
Chief, Facilities Management and Security Services

CORRECTIVE ACTION MONITORING PLAN:
Corrective actions are entered into the Joint Audit Management Enterprise System (JAMES) and are monitored monthly through completion.

RECOMMENDATION #3
Subsequent to the establishment of a complete and accurate record of non-enforcement commissions in PDS, the Chief, FMSS, should reinstate the requirement for an annual reconciliation to account for issued commissions to ensure that PDS records remain complete and accurate.

CORRECTIVE ACTION #3
We agree with this recommendation. By May 15, 2020, the Chief, FMSS, will revise and update policy in IRM 10.2.6 *Non-Enforcement Pocket Commission* to reinstate an annual reconciliation of the issued commissions to ensure that PDS records remain complete and accurate.

IMPLEMENTATION DATE:

May 15, 2020

RESPONSIBLE OFFICIAL:
Chief, Facilities Management and Security Services

CORRECTIVE ACTION MONITORING PLAN:
Corrective actions are entered into the Joint Audit Management Enterprise System (JAMES) and are monitored monthly through completion.

RECOMMENDATION #4:
The Chief, FMSS, should consider expanding the scope of the review the PCSS unit manager conducts or implement some other review to verify the information recorded in PDS reflects the information printed on the commission.

CORRECTIVE ACTION #4:
We agree with this recommendation. By September 15, 2018, the Chief, FMSS, will expand the scope of the PCSS manager to review or implement some other review, verifying the information recorded in PDS reflects the information printed on the commission.

IMPLEMENTATION DATE:
September 15, 2018

RESPONSIBLE OFFICIAL:
Chief, Facilities Management and Security Services

CORRECTIVE ACTION MONITORING PLAN:
Corrective actions are entered into the Joint Audit Management Enterprise System (JAMES) and are monitored monthly through completion.

RECOMMENDATION #5:
The Chief, FMSS, should consult with Department of the Treasury officials to determine the feasibility of modifying PDS to include all the information printed on issued commissions.

CORRECTIVE ACTION #5a:
We agree with this recommendation. By October 15, 2018, the Chief, FMSS, will develop requirements for modifications to the PDS record so that the system will thereafter include all the information printed on issued commissions.

CORRECTIVE ACTION #5b:
We agree with this recommendation. By February 15, 2019, the Chief, FMSS, will consult with Department of Treasury to determine if the feasibility and cost of modifying

6

the PDS system to include all the information printed on issued commissions. In addition, we plan to explore with Treasury whether we can use this system to send automated expiration notices to commission holders.

IMPLEMENTATION DATE:
5a: October 15, 2018
5b: February 15, 2019

RESPONSIBLE OFFICIAL:
Chief, Facilities Management and Security Services

CORRECTIVE ACTION MONITORING PLAN:
Corrective actions are entered into the Joint Audit Management Enterprise System (JAMES) and are monitored monthly through completion.

RECOMMENDATION #6:
The Chief, FMSS, should consult with Department of the Treasury officials to ensure the Program Report is complete and includes all commission records in PDS.

CORRECTIVE ACTION #6a:
We agree with this recommendation. By February 15, 2019, the Chief, FMSS, will consult with Department of Treasury to evaluate whether the Program Report is complete for all serialized commission records in PDS and to identify reporting issues that need correction.

CORRECTIVE ACTION #6b:
We agree with this recommendation. By February 15, 2020, the Chief, FMSS, will consult with Department of Treasury to ensure that Program Report is complete for all serialized commission records in PDS.

IMPLEMENTATION DATE:
6a: February 15, 2019
6b: February 15, 2020

RESPONSIBLE OFFICIAL:
Chief, Facilities Management and Security Services

CORRECTIVE ACTION MONITORING PLAN:
Corrective actions are entered into the Joint Audit Management Enterprise System (JAMES) and are monitored monthly through completion.

RECOMMENDATION #7:

The Chief, FMSS, should implement appropriate procedures for following-up with employees who have not returned their expired commissions.

CORRECTIVE ACTION #7a:
We agree with this recommendation. By January 15, 2019, the Chief, FMSS, will develop procedures for following up with employees who have not returned expired commissions.

CORRECTIVE ACTION #7b:
We agree with this recommendation. By March 15, 2019, the Chief, FMSS, will fully implement the process for following up with employees who have not returned expired commissions.

IMPLEMENTATION DATE:
7a: January 15, 2019
7b: March 15, 2019

RESPONSIBLE OFFICIAL:
Chief, Facilities Management and Security Services
CORRECTIVE ACTION MONITORING PLAN:
Corrective actions are entered into the Joint Audit Management Enterprise System (JAMES) and are monitored monthly through completion.

RECOMMENDATION #8:
The Chief, FMSS, should implement appropriate procedures for following-up with employees who have not returned required forms within established timeframes.

CORRECTIVE ACTION #8a:
We agree with this recommendation. By January 15, 2019, the Chief, FMSS, will develop procedures for following up with employees who have not returned required forms within established timeframes.

CORRECTIVE ACTION #8b:
We agree with this recommendation. By March 15, 2019, the Chief, FMSS, will fully implement the process for following up with employees who have not returned required forms within established timeframes.

IMPLEMENTATION DATE:
8a: January 15, 2019
8b: March 15, 2019

RESPONSIBLE OFFICIAL:
Chief, Facilities Management and Security Services

8

CORRECTIVE ACTION MONITORING PLAN:
Corrective actions are entered into the Joint Audit Management Enterprise System (JAMES) and are monitored monthly through completion.

To report fraud, waste, or abuse, call our toll-free hotline at:

1-800-366-4484

By Web:

[***www.treasury.gov/tigta/***](http://www.treasury.gov/tigta/)

Or Write:

Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.