



Testimony

Before the Subcommittee on Government Operations, Committee on Oversight and Government Reform, House of Representatives

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SECURITY CLEARANCES

Additional Mechanisms May Aid Federal Tax-Debt Detection

Statement of Seto J. Bagdoyan, Director,
Forensic Audits and Investigative Service

Accessible Version

GAO Highlights

Highlights of [GAO-15-467T](#), a testimony before the Subcommittee on Government Operations, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

According to ODNI, several million civilian and military federal employees and contractors were eligible to hold a security clearance as of October 2013. The number of personnel determined eligible for clearance underscores the importance of conducting thorough assessments of security-clearance applicants as these clearances may allow individuals to gain access to classified information that, through unauthorized disclosure, in some cases might cause exceptionally grave damage to U.S. national security. Federal laws do not prohibit an individual with unpaid federal taxes from holding a security clearance, but tax debt poses a potential vulnerability that must be considered in making a broader determination about whether an applicant should be granted a security clearance.

This testimony focuses on: (1) the extent to which clearance holders had unpaid federal tax debts, and (2) actions to improve the detection of federal tax debt in the security-clearance process. This testimony is based on and summarizes key findings and a recommendation from two prior reports GAO issued in September 2013 and July 2014 ([GAO-13-733](#) and [GAO-14-686R](#)).

GAO is not making any new recommendations in this testimony.

View [GAO-15-467T](#). For more information, contact Seto Bagdoyan at (202) 512-6722 or BagdoyanS@gao.gov.

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Additional Mechanisms May Aid Federal Tax-Debt Detection

What GAO Found

In its prior work, GAO found that tens of thousands of federal employees and contractors who were adjudicated as eligible for national security clearances had unpaid federal tax debts. Specifically:

- In July 2014, GAO reported that about 83,000 Department of Defense (DOD) employees and contractors who were determined eligible for a security clearance or related interim clearance owed approximately \$730 million in unpaid taxes as of June 2012.
- In September 2013, GAO reported that about 8,400 non-DOD civilian executive-branch employees and contractors with clearances owed about \$85 million in unpaid federal taxes as of June 2012.

Because some federal employees and contractors have security-clearance records in both the DOD and non-DOD databases GAO used to perform this work, some individuals may be in both analyses of DOD and non-DOD security clearance holders who owe federal taxes. It is also important to note that the national security-clearance databases GAO used to perform this work do not maintain information on the denial of security clearances on the basis of an individual's unpaid federal tax debt. Thus, GAO was not able to determine the number of individuals who were denied security clearances for this reason.

The Office of the Director of National Intelligence (ODNI), which is responsible for developing uniform and consistent policies related to the security-clearance process, is working with other federal agencies to explore actions to improve the detection of federal tax debts owed by current clearance holders and applicants, but these efforts are in the initial planning stages. In September 2013, GAO reported that additional mechanisms that provide large-scale detection of federal tax debt could improve federal agencies' ability to detect tax debts owed by security-clearance applicants and security-clearance holders. Access to the federal tax information needed to obtain the tax-payment status of applicants is restricted under section 6103 of the Internal Revenue Code (26 U.S.C. § 6103), which generally prohibits disclosure of taxpayer data to federal agencies and others. Federal agencies may obtain information on federal tax debts directly from the Internal Revenue Service if the applicant provides consent, but this manual process is not conducive to large-scale detection of unpaid federal taxes. In September 2013, GAO recommended that the Director of National Intelligence work with other agencies to evaluate the feasibility of routinely obtaining federal debt information through an automated mechanism for the purposes of investigating and adjudicating clearance applicants, as well as for ongoing monitoring of current clearance holders' tax-debt status. ODNI concurred with GAO's recommendation. ODNI and its working group have taken initial steps to address GAO's recommendation, but efforts to develop an automated system to perform federal tax-compliance checks are in the initial planning stages. As such, GAO will continue to monitor ODNI's efforts in this area.

Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee:

I am pleased to be here today to provide GAO's perspectives on the issue of federal tax debts owed by federal employees and contractors with national security clearances. This is an important issue as the Office of the Director of National Intelligence (ODNI) reported that, as of October 2013, several million federal employees (civilian and military) and contractors held—or were individuals eligible to hold—a security clearance.¹ The number of personnel determined eligible for clearance underscores the importance of security-clearance adjudicators conducting thorough vulnerability assessments of security-clearance applicants as these clearances may allow individuals to gain access to classified information that, through unauthorized disclosure, can in some cases cause exceptionally grave damage to U.S. national security.

Federal law does not expressly prohibit an individual with unpaid federal taxes from being granted a security clearance; however, unpaid tax debt does pose a potential vulnerability that is to be considered in making a broader determination of whether an applicant should be granted a security clearance. Specifically, federal regulations state that an individual who is financially overextended is at risk of having to engage in illegal acts to generate funds, and that adjudicating officials must weigh an individual's inability or unwillingness to satisfy debts, such as federal tax debts, as they relate to an individual's financial and personal conduct

¹Office of the Director of National Intelligence, *2013 Report on Security Clearance Determinations* (April 2014). In September 2014, we reported that data ODNI provides to Congress on total employees eligible for access to classified information may include inaccurate Department of Defense (DOD) data. Specifically, we found that the DOD data that are included in annual reports to Congress likely overstate the total number of DOD employees eligible to access classified information, in part because the DOD data does not have up-to-date information about the current population of DOD employees. Without accurate data, DOD's ability to reduce the total population of clearance holders and minimize risk and reduce costs to the government will be hampered. In response to our September 2014 report, DOD stated that the agency would convene a meeting of action officers and analysts to identify strategies for reviewing, analyzing, and resolving the discrepancies in the total number of employees and the number of employees eligible to access classified information. We are continuing to monitor this issue. See GAO, *Personnel Security Clearances: Additional Guidance and Oversight Needed at DHS and DOD to Ensure Consistent Application of Revocation Process*, [GAO-14-640](#) (Washington, D.C.: Sept. 8, 2014).

when making the security-clearance determination.² The Director of National Intelligence (DNI) is the Security Executive Agent for the federal government. In this role, the DNI is responsible for developing uniform and consistent policies related to the security-clearance process. The security-clearance process begins with a determination by executive agencies regarding which of their civilian and contractor positions require access to classified information. The individuals identified must then be sponsored by their agency for a security clearance and undergo an investigation. The Office of Personnel Management (OPM) and its contractors conduct background investigations of security-clearance applicants for most executive agencies, including the Department of Defense (DOD). Following the investigation, federal agencies are to determine whether an applicant is eligible for a personnel security-clearance on the basis, in part, of the results of the background investigation.

My testimony today relates to key findings from our prior work on security-clearance holders in the civilian and DOD agencies and their contractors who owe federal taxes. Specifically, my remarks will focus on two areas: (1) the number of individuals with unpaid federal taxes, if any, who are in DOD's and OPM's security-clearance databases and the magnitude of any unpaid federal tax debt;³ and (2) plans and actions to improve the detection of federal tax debt in the security-clearance process undertaken by ODNI and others.

My statement is based on our two prior reports, issued in July 2014 and September 2013, related to the security-clearance process and mechanisms used to identify unpaid federal tax debts owed by applicants, federal employees, and contractors.⁴ For the July 2014 report, we

²32 C.F.R. Part 147, *Adjudicative Guidelines for Determining Eligibility for Access to Classified Information* (2011).

³The national security-clearance databases we refer to in this testimony are OPM's Central Verification System (CVS), which maintains security-clearance information from non-DOD civilian agencies, and the Joint Personnel Adjudication System (JPAS), which maintains security-clearance information for DOD employees and contractors. As part of our prior work, we did not review security-clearance information from the intelligence community, which is maintained in the Scattered Castles database.

⁴See GAO, *Security Clearances: Tax Debts Owed by DOD Employees and Contractors*, [GAO-14-686R](#) (Washington, D.C.: July 28, 2014); and *Security Clearances: Additional Mechanisms May Aid Federal Tax-Debt Detection*, [GAO-13-733](#) (Washington, D.C.: Sept. 10, 2013).

compared DOD's security-clearance information to Internal Revenue Service (IRS) data on known tax debts. We also reviewed relevant laws, regulations, and guidance and interviewed officials from ODNI, the Department of the Treasury (Treasury), OPM, and DOD. For the September 2013 report, we compared OPM's security-clearance information to the IRS's known tax debts. We also reviewed relevant laws and regulations and interviewed officials from ODNI, Treasury, OPM, and three selected federal agencies that represented more than half of the clearance holders in OPM's database. The reports cited in this statement each provide further details on our scope and methodology. The work on which this statement is based was performed in accordance with generally accepted government auditing standards.

Federal Employees and Contractors with Security Clearances Owed Hundreds of Millions of Dollars in Federal Taxes

In our prior reviews examining information in the DOD and OPM databases of security-clearance holders,⁵ we found tens of thousands of federal employees and contractors who were adjudicated as eligible for national security clearances and had unpaid federal tax debts.⁶ Specifically:

- In July 2014, we reported that about 83,000 DOD employees and contractors were determined eligible for secret, top-secret, or sensitive compartmented information (SCI) clearances,⁷ or related interim clearances at the same time that they had unpaid federal tax

⁵As mentioned, the national security-clearance databases we refer to in this testimony are OPM's Central Verification System (CVS), which maintains security-clearance information from non-DOD civilian agencies, and the Joint Personnel Adjudication System (JPAS), which maintains security-clearance information for DOD employees and contractors. As part of our prior work, we did not review security-clearance information from the intelligence community, which is maintained in the Scattered Castles database.

⁶See [GAO-13-733](#) and [GAO-14-686R](#).

⁷SCI relates to positions that require access to unique or uniquely productive intelligence sources or methods vital to U.S. security.

debt, which totaled more than \$730 million as of June 30, 2012.⁸ DOD reported to GAO that about 3.2 million civilian and military employees and contractors held or were approved for similar clearances from January 1, 2006, to December 31, 2011, which was the time frame for our analysis of clearance eligibility.⁹

- In September 2013, we reported that about 8,400 non-DOD, civilian executive-branch employees and contractors who were adjudicated as eligible for a security clearance during the same period owed approximately \$85 million in unpaid federal taxes as of June 2012. About 240,000 employees and contractors of civilian executive-branch agencies, excluding known employees and contractors of DOD and intelligence agencies, were favorably adjudicated during that period.

Because some federal employees and contractors have security clearance records in both the DOD and OPM databases, some of these individuals may be included in both of our analyses of DOD and OPM security-clearance holders that owe federal taxes.¹⁰ Our analyses include both initial investigations when an individual is applying for a clearance and reinvestigations when an individual is upgrading to a higher clearance level or renewing an existing clearance. It is also important to note that the national security-clearance databases we used to perform our work do not maintain information on the denial of security clearances on the basis of an individual's nonpayment of federal taxes. Thus, we

⁸We report tax debts owed as of June 30, 2012 because these were the most-recent data available at the time we began our work. Our analysis includes tax debts from taxes receivable, which have been self-reported by the taxpayer or court-ordered; and write-offs, which are determined by the IRS to have little or no chance of collection. In addition, the IRS database we used for this analysis does not reflect amounts owed by businesses and individuals that have not filed tax returns and for which the IRS has not assessed tax amounts due. Our analysis did not attempt to account for businesses or individuals that underreported taxes. We identified \$100 as a minimum amount because the IRS defines this threshold for some purposes as a de minimis amount, below which any amount is so small as to make accounting for it unreasonable or impractical.

⁹As mentioned, we previously reported that the DOD data likely overstate the total number of DOD employees eligible to access classified information, in part because the DOD data does not have up-to-date information about the current population of DOD employees. See [GAO-14-640](#).

¹⁰Identifying clearance holders with tax debt in both the non-DOD and DOD populations was beyond the scope of our prior reviews, which were conducted separately and published in September 2013 and July 2014.

were not able to determine the number of individuals who were denied security clearances for this reason.

For the population of DOD employees and contractors with clearances and tax debt, the median debt amount owed was about \$2,700, and tax debts ranged from a minimum of about \$100 to millions of dollars. For these 83,000 DOD employees and contractors, in July 2014, we also found the following:

- **About 40 percent of the individuals were in a repayment plan with the IRS.**¹¹ According to IRS data, about 34,000 of these 83,000 individuals with tax debt had a repayment plan with the IRS to pay back their debt as of June 30, 2012. The tax debt owed by those on a repayment plan was approximately \$262 million.
- **About half of individuals with tax debt were federal employees.** About 44,500 of the approximately 83,000 individuals with tax debt were federal employees, while the rest were employees of federal contractors or had an “other” designation used to identify other categories of individuals.¹² Federal employees owed approximately \$363 million of the \$730 million (about 50 percent) of unpaid taxes owed by DOD clearance holders.
- **About 25 percent of the individuals with tax debt were eligible for a top-secret or SCI clearance.** About 20,400 of these 83,000 individuals were adjudicated as eligible for a top-secret or SCI clearance during our time frame (Jan. 1, 2006, to Dec. 31, 2011), while the others were favorably adjudicated as eligible for a secret clearance. DOD employees with top-secret or SCI-level clearances owed over \$249 million in tax debt.
- **Most individuals accrued tax debt after clearance adjudication.** About 63,000 individuals (about 76 percent) accrued tax debts only

¹¹Repayment plans, or installment agreements, are monthly payments made to the IRS that allow individuals or entities to repay their federal tax debt over an extended period. According to ODNI officials, if an individual has a repayment plan with the IRS and is honoring the plan, this is a mitigating factor and, in the absence of other adjudicative concerns, may result in a determination to grant initial or continued eligibility for access.

¹²According to ODNI, the “other” category consists of individuals who held or were approved for security clearances but could not be categorized as either a federal employee or a contractor.

after they were determined eligible for a security clearance. About 20,000 individuals (about 24 percent) accrued their tax debt before they were determined eligible for a security clearance.

For the population of non-DOD employees and contractors with clearances and tax debt,¹³ the median debt amount owed was approximately \$3,800, and tax debts ranged from a minimum of about \$100 to millions of dollars. For these 8,400 non-DOD employees and contractors, in September 2013, we also found the following:

- **About half of the individuals were in a repayment plan with the IRS.** According to IRS data, about 4,200 of these 8,400 individuals with tax debt had a repayment plan with the agency to pay back their debt as of June 30, 2012. The tax debt owed by those on a repayment plan was approximately \$35 million.
- **About half of the individuals were federal employees.** About 4,700 of the approximately 8,400 individuals with tax debt were federal employees, while the rest were employees of federal contractors or had an “other” designation used to identify other categories of individuals.
- **About half of the individuals with tax debt were eligible for a top-secret clearance.** About 4,200 of these 8,400 individuals were favorably adjudicated as eligible for a top-secret clearance during our time frame (Apr. 1, 2006, to Dec. 31, 2011), while the others were favorably adjudicated as eligible for a secret clearance.
- **Most individuals accrued tax debt after clearance adjudication.** Approximately 6,300 individuals (about 76 percent) accrued tax debts only after the issuance of the security clearance. Approximately 2,000 individuals (about 25 percent) accrued their tax debt before the approval for the security clearance.¹⁴

¹³As mentioned, some of these 8,400 non-DOD employees and contractors may be included in the population of 83,000 DOD clearance holders with tax debt if they held clearances for both DOD and non-DOD positions during our 5-year time frame.

¹⁴Percentages may not add due to rounding.

Actions to Improve Federal Tax-Compliance Checks for Clearance Holders and Applicants Are in the Initial Planning Stages

In September 2013, we reported that federal agencies may obtain information on federal tax compliance directly from the IRS if the applicant provides consent. However, obtaining consent waivers is a manual process and thus it is not conducive to the large-scale detection of unpaid federal taxes owed by security-clearance applicants.¹⁵ Additionally, the consent waiver generally provides limited visibility into an applicant's overall tax-debt status because the form requires the requesting agency to identify the specific time periods for which it is requesting disclosure, and, as such, the agency may not obtain the complete tax-debt history of the individual nor would it be of use during the duration of time between reinvestigations.

In September 2013, we also reported that additional mechanisms that provide large-scale, routine detection of federal debt could improve the ability of federal agencies to identify individuals who owe federal debts, including federal taxes, but statutory privacy protections limit access to this information.¹⁶ As we reported, federal agencies may obtain information on federal tax debts directly from the IRS if the applicant provides consent, but federal agencies do not have a mechanism, such as one that Treasury uses, to collect unpaid federal debts. Enhancing federal investigative agencies' access to federal debt information, including federal taxes, for the purpose of both investigating and adjudicating security-clearance applicants, as well as ongoing monitoring of current clearance holders' tax-debt status, would better position agencies to make fully informed decisions about eligibility for security clearances. Thus, we recommended in September 2013 that the ODNI, in consultation with OPM and Treasury, should evaluate the feasibility of federal agencies routinely obtaining federal debt information from Treasury, or a similar automated mechanism that includes federal taxes, for the purposes of investigating and adjudicating clearance applicants, as well as for ongoing monitoring of current clearance holders' tax-debt status. If this is found to be impractical, we recommended that ODNI consider whether an exception to federal privacy law is advisable and, if so, develop a legislative proposal, in consultation with Congress, to

¹⁵GAO-13-733.

¹⁶GAO-13-733. Access to the federal tax information needed to obtain the tax payment status of applicants is restricted under section 6103 of the Internal Revenue Code, which generally prohibits disclosure of taxpayer data to federal agencies and others, including disclosures to help validate an applicant's certifications about the nature and extent of his or her tax debt. 26 U.S.C. § 6103.

authorize access to tax-debt information. Both ODNI and OPM concurred with our September 2013 recommendation.

As we reported in July 2014 in following up on this recommendation, officials from ODNI's interagency working group stated that the working group began exploring sources of information to provide automated federal tax-compliance checks for the purposes of investigating and adjudicating clearance applicants, as well as for ongoing monitoring of current clearance holders' tax-debt status.¹⁷ For example, ODNI officials stated that the IRS assigned a program manager in January 2014 to oversee the development or modification of IRS systems to accomplish automated tax-compliance checks. As part of this work, the officials stated that they were also exploring whether an exception to section 6103 of the Internal Revenue Code would be advisable to facilitate the sharing of taxpayer information for the purpose of making security-clearance determinations.¹⁸ Officials from the interagency working group stated their goal was to establish an automated federal tax-compliance check by 2017, which is the current planned time frame for full implementation of the revised Federal Investigative Standards for background investigations.¹⁹ However, as of July 2014 the officials also noted that efforts to develop an automated system to perform a federal tax-compliance check were still in the initial planning stages. As such, the officials noted that project plans were still in development, funding had not yet been established, and technologies were not yet fully developed.

Because ODNI is exploring actions to improve the detection of federal tax debts owed by current clearance holders and applicants, it is too early to assess the results of these efforts. We believe these efforts, if implemented, might help to detect the tax debts of federal employees and contractors who hold or apply for a national security clearance. However,

¹⁷[GAO-14-686R](#).

¹⁸26 U.S.C. § 6103.

¹⁹In December 2012, the Security and Suitability Executive Agents (the DNI and the Director of OPM) jointly issued revised Federal Investigative Standards for background investigations. The revised investigative standards require tax-compliance checks as part of any security-clearance investigation or reinvestigation. OPM believes that this change will accommodate the addition of any new tax checks that are authorized. As mentioned, full implementation of the revised standards is currently planned for 2017.

because these efforts are in the initial planning stages, we will continue to monitor ODNI's efforts in this area.

Chairman Meadows, Ranking Member Connolly, and Members of the Subcommittee, this concludes my prepared remarks. I would be pleased to answer any questions you or other Members may have at this time.

GAO Contact

For questions about this statement, please contact Seto Bagdoyan at (202) 512-6722 or BagdoyanS@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

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