KEYWORD: Financial

DIGEST: Sixteen years ago, Applicant became involved with her stepfather in the business operations of a sole proprietorship. Because of poor decision-making about business finances and management, tax liability issues related to the business arose, and ultimately became Applicant's responsibility. For a number of years, Applicant worked with the Internal Revenue Service (IRS) to resolve her tax problems. She continues with her efforts to resolve her tax problems, even though the IRS declared her unpaid taxes as "uncollectible". She had mitigated the government's concerns about financial considerations. Eligibility is granted.

DATE: May 31, 2007

CASENO: 06-1746.h1

DATE: 05/31/2007

In re:)	
 SSN:)	ADP Case No. 06-17146
Applicant for Public Trust Position)	

DECISION OF ADMINISTRATIVE JUDGE MARY E. HENRY

APPEARANCES

FOR GOVERNMENT

Richard Stevens, Esq., Department Counsel

FOR APPLICANT

Pro Se

Sixteen years ago, Applicant became involved with her stepfather in the business operations of a sole proprietorship. Because of poor decision-making about business finances and management, tax liability issues related to the business arose, and ultimately became Applicant's responsibility. For a number of years, Applicant worked with the Internal Revenue Service (IRS) to resolve her tax problems. She continues with her efforts to resolve her tax problems, even though the IRS declared her unpaid taxes as "uncollectible". She had mitigated the government's concerns about financial considerations. Eligibility is granted.

STATEMENT OF CASE

On August 18, 2004, Applicant submitted a signed application for a position of public trust, an ADP I/II/III position (SF-85P), which she again signed on February 17, 2005. The Defense Office of Hearings and Appeals (DOHA) declined to grant the application under Department of Defense Directive 5220.6, *Defense Industrial Personnel Security Clearance Review Program* (Jan. 2, 1992), as amended (the "Directive").¹ On December 11, 2006, DOHA issued Applicant a Statement of Reasons (SOR) detailing the basis for its decision. The SOR, which is in essence the administrative complaint, alleged trustworthiness concerns under Guideline F (Financial Considerations) of the revised Adjudicative Guidelines (AG) issued on December 29, 2005 and implemented by the Department of Defense, effective September 1, 2006. DOHA recommended the case be referred to an administrative judge to determine whether eligibility for a position of trust should be granted, continued, denied, or revoked. On January 10, 2007, Applicant submitted a notarized response to the allegations. She requested a hearing.

DOHA assigned this case to another administrative judge on February 8, 2007, and transferred the case to me on March 8, 2007. DOHA issued a notice of hearing on March 16, 2007. I conducted the hearing on April 10, 2007. The government submitted five exhibits (GE), which were marked and admitted into the record as GE 1-5 without objection. Applicant submitted four exhibits (App Ex), which were marked and admitted as App Ex A-D without objection. Applicant testified on her own behalf. I held the record open for the submission of additional documentation by the Applicant, which she did. She submitted 9 additional documents, which were marked and admitted as App Ex E-M without objection. DOHA received the hearing transcript (Tr.) on April 24, 2007.

FINDINGS OF FACT

In her SOR response, Applicant admits all the SOR allegations under Guideline F, but denies the overall concern.² Applicant's admissions are incorporated herein. In addition, after a thorough and careful review of the pleadings, exhibits, and testimony, I make the following findings of fact.

¹This action was taken under Executive Order 10865, dated February 20, 1960, as amended; and Memorandum from the Deputy Under Secretary of Defense Counterintelligence and Security, titled "Adjudication of Trustworthiness Cases," dated November 19, 2004.

²Applicant's Response to the SOR, dated January 10, 2007.

Applicant, a 40-year-old woman employed as a manager by a Department of Defense contractor, seeks a position of public trust. She married in 1990 and has no children.³

In 1991, at age 25 and without any business experience, Applicant became involved in the operations of a logging business with her stepfather. Rather than incorporating the business, they ran it as a sole proprietorship. Thus, when necessary, she purchased equipment, office supplies, business materials, and other items needed to run the business with her personal credit card.⁴ As a result of poor management and business decision making, unpaid taxes of an unknown type became an issue for the business.⁵ Although the business paid monies to the Internal Revenue Service (IRS), it lacked sufficient funds to pay the full amount of taxes owed. Because this business operated as a sole proprietorship, her personal income included income earned from the business, and its tax problems became her tax problems.⁶ The record contains no evidence that she failed to file her personal income taxes in any given year.

In 1994, Applicant started working full-time at a bank, while continuing to work part-time in the logging business, as the book and records keeper. In 1995, she began attending college. She graduated in May 1998, with a Bachelor of Arts degree in accounting. In October 1998, she accepted an employment offer with her current employer. In 2000 or 2001, she and her stepfather ceased operating the logging business.⁷

Based on her credit reports dated June 18, 2003, June 12, 2006, and February 5, 2007, the IRS filed the following tax liens after assessing Applicant's additional tax liability:⁸

SOR ¶	LIEN DATE	AMOUNT	STATUS
none	January 1996	\$ 4,918.00	Released May 2002
1.a	February 1996	\$ 4,918.00	Collection possibly barred by the federal statute of limitations
1.b	May 1996	\$ 9,073.00	Collection possibly barred by the federal statute of limitations
1.b	May 1996 (same as above)	\$ 9,073.00	Collection possibly barred by the federal statute of limitations

³GE 1 (Applicant's Application for a Position of Trust, dated August 18, 2004) at 1, 3, 5; Tr. at 17-18.

⁴Tr. at 20-21.

⁵The record contains no information as to the nature and type of unpaid tax problems the logging business developed. The unpaid taxes may relate to taxes a business must pay for its income or employee withholding taxes.

⁶I note that because the logging business operated as a sole proprietorship, the business income would be treated as personal income for the owner for tax purposes.

⁷GE 1, *supra* note 3, at 2, 3; Tr. at 16-18, 39.

⁸GE 4 (Credit report, dated June 18, 2003); GE 5 (Credit report, dated June 12, 2006); GE 6 (Credit report, dated February 5, 2007)

1.h	March 1999	\$ 7,971.00	Unpaid
1.h	March 1999 (same as above)	\$ 7,971.00	Unpaid
1.i	March 1999	\$18,694.00	Unpaid
1.j	May 1999	\$ 1,942.00	Unpaid
1.k	December 1999	\$ 4,756.00	Unpaid
1.n	January 2003	\$ 7,213.00	Unpaid
1.0	January 2003	\$ 4,290.00	Unpaid
1.p	December 2003	\$ 1,759.00	Unpaid

Likewise, Applicant's credit reports indicate that the state Department of Revenue also filed the following tax liens against Applicant for the tax deficiencies created as a result of the operation of the logging business:⁹

SOR ¶	LIEN DATE	AMOUNT	STATUS
1.c	June 1996	\$ 835.00	Unpaid (Possibly barred from collection by the Statute of Limitations)
1.d	October 1996	\$1,313.00	Unpaid (Possibly barred from collection by the Statute of Limitations)
1.e	December1996	\$ 247.00	Unpaid (Possibly barred from collection by the Statute of Limitations)
1.f	February 1998	\$ 548.00	Unpaid
none	November 1998	\$1,144.00	Released August 2004
1.g	January 1999	\$4,314.00	Unpaid
1.1	July 2000	\$2,838.00	Unpaid
1.m	September 2000	\$3,675.00	Unpaid

The actual tax years in question are not shown on the credit reports; Applicant, however, believes most of the liens cover tax years in the late 1990s and all are related to the logging business.

⁹Id.

The unpaid federal taxes total approximately, \$60,600 and the unpaid state taxes total approximately \$14,000.10

While in operation and after she understood her responsibility to do so, the business made tax payments to the IRS, but the payments were insufficient to satisfy the actual tax liability. Until 2002, Applicant regularly met with an IRS representative to discuss a resolution of her tax issues. In 2002, she paid one federal tax lien, which has been released by the IRS. She believes that in 2002, she paid a second lien in the amount of \$9,073 and that all liens for the year 1996 are paid or beyond the statutory time line to collect, but has not provided verifying documentation. Subsequently, she made offers for a compromise settlement and payment by installment agreement, which the IRS rejected. The IRS currently considers her unpaid taxes as "uncollectible". Thus, the IRS has not sought to enforce its lien through court proceedings or by a levy proceeding, such as garnishing her wages to collect her back taxes, or taking her yearly tax refunds as an offset against her unpaid tax debt. In the past, Applicant and her husband tried to refinance their house to help pay her tax liability, but could not obtain financing because of the tax liens. This problem continues. 12

In August 2006, Applicant completed IRS form 433-D (Installment Agreement) and Form 433-A (Collection Information Statement for Wage Earners and Self-Employed Individuals) and submitted it to the IRS. She again made an offer of compromise, and alternately, offered to repay her federal tax liens at the rate of \$500 a month.¹³ The IRS has not acted on her most recent offer for repayment through an installment agreement, indicating in a letter dated April 9, 2007 that it needed thirty days to consider a complete financial statement.¹⁴

The state Department of Revenue applies her and her husband's yearly tax refund to her outstanding tax liens. For 2003, her refund totaled \$530; for 2004, it totaled \$246; for 2005, it totaled \$624; and for 2006, it totaled \$917. These payments reduced her tax liability by approximately \$2,300, and should lead to the release of several small state tax liens listed in her credit reports. She has no other payment arrangement with the state; however, the state will continue to take her tax refunds until her debt is paid. The most recent credit report reflects that in 2004, one state tax lien had been paid and released. ¹⁵

¹⁰GE 2 (Applicant's signed statement, dated July 18, 2005) at1, 3-4; GE 4, *supra* note 8; GX 5, *supra* note 8; GE 6, *supra* note 8; Tr. at 21.

¹¹GE 2, *supra* note 10, at 1, 3-4; GE 5, *supra* note 8, at 1; App Ex A (Letter, dated April 9, 2007); App Ex L (Copies of tax payments made by the business); Response to SOR, *supra* note 2.

¹²App Ex M (Applicant statement, faxed on May 21, 2007); Tr. at 51, 59.

¹³App Ex B (Form 433-D); App Ex C (Form 433-A); GE 2, *supra* note 10, at 24-31.

¹⁴The IRS mailed this letter 30 days after Applicant walked into its office on March 9, 2007. App Ex A, *supra* note 11.

¹⁵GE 5, *supra* note 8, at 1; App Ex J (Notification from state on 2003 and 2004 tax refund); App Ex H (State tax return for 2005); App Ex I (State tax return for 2006); Tr. at 24-25.

Applicant and her husband currently earn approximately \$75,000 a year in gross income. Her net monthly income totals \$2,660 and her husband's net monthly income is estimated at \$1,700 for a net monthly income of \$4,360. Based on record evidence and hearing testimony, her estimated monthly expenses are \$3,700. Her husband owns two rental houses. She estimates the monthly income from these properties to be \$650, which is higher than the monthly income of \$590 in 2006. The monthly expenses for these properties totaled approximately \$813 in 2006. At the current rental income level, they must provide approximately \$165 in additional funds each month for the operation of these properties. She and her husband have looked at several options in an effort to resolve her tax issues, but none of the possible options, such as selling the car or rental houses, would produce income to pay her tax liabilities.

Applicant's supervisor praises her work skills, responsibilities, and work ethic. He rated her a 4.5, a very high performance rating. He advises that she has not had any corrective actions during her employment and that she is respected and trusted by co-workers, beneficiaries, and providers. He specifically noted that her performance review includes a section of responsibility, which is defined as 1) demonstrates accountability for actions; 2) acts in the best interest of the company; and 3) acts in a complaint and ethical manner; and that she is consistently rated at the 4 or 5 level in this section, the two highest performance ratings. ¹⁹ The record contains no evidence which indicates that Applicant has resorted to illegal activity as a means to resolve her financial difficulties.

POLICIES

The revised Adjudicative Guidelines set forth disqualifying conditions (DC) and mitigating conditions (MC) applicable to each specific guideline. An administrative judge need not view the revised adjudicative guidelines as inflexible ironclad rules of law. Instead, acknowledging the complexities of human behavior, these guidelines, are intended to assist the administrative judge in reaching fair and impartial common sense decisions. Although the presence or absence of a particular condition or factor for or against a trustworthiness determination is not outcome determinative, the revised AG should be followed whenever a case can be measured against this policy guidance. In addition, each security clearance decision must be based on the relevant and material facts and circumstances, the whole-person concept, and the factors listed in the Directive. Specifically, these are: (1) the nature, extent, and seriousness of the conduct; (2) the circumstances surrounding the conduct; (3) the frequency and recency of the conduct; (4) the individual's age and maturity at the time of the conduct; (5) the voluntariness of participation; (6) the presence or absence of rehabilitation

¹⁶App Ex E (Applicant's compensation records for March and April 2007); Applicant Exhibit C (IRS Form 433-A, dated August 14, 2006) at 6; App Ex F (Applicant's 2006 federal tax return); Tr. at 43-47.

¹⁷App Ex E, *supra* note 16. Based on Applicant's income and expense analysis in IRS Form 433-A, her husband's gross income is \$2,024 a month. Their combined monthly withholdings are \$1,150. Since her compensation records reflect \$829 a month for her monthly tax withholdings, her husband's monthly tax withholdings total \$321. GE 3 (Applicant's response to Interrogatories and attachments, dated August 14, 2006) at 33; App Ex C, *supra* note 16, at 6.

¹⁸App Ex F, supra note 16; App Ex G (Applicant's 2005 federal tax return); Tr. at 50.

¹⁹App Ex D (Letter from her supervisor, dated April 5, 2007 and March 21, 2007); GE 3, supra note 17, at 1-4.

and other behavioral changes; (7) the motivation for the conduct; (8) the potential for pressure, coercion, exploitation, or duress; and (9) the likelihood of continuation or recurrence.²⁰

The sole purpose of a trustworthiness determination is to decide if it is clearly consistent with the national interest to grant eligibility for assignment to sensitive duties to an applicant.²¹ The government has the burden of proving controverted facts in the SOR that disqualify or may disqualify the applicant from being eligible for access to classified information.²² The burden of proof is something less than a preponderance of the evidence.²³ Once the government has met its burden, the burden shifts to the applicant to present evidence of refutation, extenuation, or mitigation to overcome the case against him.²⁴ Additionally, an applicant has the ultimate burden of persuasion to obtain a favorable clearance decision.²⁵ Conditions that could raise a trustworthiness concern and may be disqualifying, as well as those which could mitigate security concerns pertaining to these adjudicative guidelines, are set forth and discussed in the conclusions below.

No one has a right to a security clearance, ²⁶ and "the clearly consistent standard indicates that security clearance determinations should err, if they must, on the side of denials." Any reasonable doubt about whether an applicant should be allowed access to sensitive information must be resolved in favor of protecting such sensitive information. ²⁸ Section 7 of Executive Order 10865 specifically provides industrial security clearance decisions shall be "in terms of the national interest and shall in no sense be a determination as to the loyalty of the applicant concerned." The decision to deny an individual a security clearance is not necessarily a determination as to the allegiance, loyalty, and patriotism of an applicant. ²⁹ It is merely an indication that the applicant has not met the strict guidelines the President and the Secretary of Defense have established for issuing a clearance. Any doubt as to whether access to classified information is clearly consistent with national security will be resolved in favor of the national security. ³⁰ The same rules apply to trustworthiness determinations for access to sensitive positions.

²⁰Directive, revised Adjudicative Guidelines (AG) ¶2(a)(1)-(9).

²¹ISCR Case No. 96-0277 at 2 (App. Bd., July 11, 1997).

²²ISCR Case No. 97-0016 at 3 (App. Bd., December 31, 1997); Directive, Enclosure 3, ¶ E3.1.14.

²³Department of the Navy v. Egan, 484 U.S. 518, 528 (1988).

²⁴ISCR Case No. 94-1075 at 3-4 (App. Bd., August 10, 1995); Directive, Enclosure 3, ¶ E3.1.15.

²⁵ISCR Case No. 93-1390 at 7-8 (App. Bd. Decision and Reversal Order, January 27, 1995); Directive, Enclosure 3, ¶ E3.1.15.

²⁶Egan, 484 U.S. at 531.

 $^{^{27}}Id$.

²⁸*Id*.; Directive, revised AG ¶ 2(b).

²⁹Executive Order No. 10865 § 7.

³⁰ Directive, revised AG ¶ 2(b).

CONCLUSIONS

I have carefully considered all the facts in evidence and the legal standards. The government has established a *prima facie* case for disqualification under Guideline F - Financial Considerations.

Financial Considerations

Under Guideline F, the "failure or inability to live within one's means, satisfy debts, and meet financial obligations may indicate poor self-control, lack of judgment, or unwillingness to abide by rules and regulations, all of which can raise questions about an individual's reliability, trustworthiness and ability to protect classified information. An individual who is financially overextended is at risk of having to engage in illegal acts to generate funds." (AG \P 18.) The credit reports reflect many liens filed by the federal government and state government for unpaid taxes, which applicant acknowledged. She incurred these tax liabilities when she worked with her stepfather in a very small sole proprietorship business. Because of the age of these debts, their delinquent status, and the amount of the debt, Applicant showed an inability or unwillingness to pay her debts. Based on the evidence of record, the government established the applicability of DC \P 19 (a) *inability or unwillingness to satisfy debts* and DC \P 19 (c) *a history of not meeting financial obligations*.

MC ¶ 26 (a) the behavior happened so long ago, was so infrequent, or occurred under such circumstances that it is unlikely recur and does not cast doubt on the individual's current reliability, trustworthiness, or good judgment may be raised in this case. Because the tax liens involve several years of unpaid taxes in the 1990s, Applicant's failure to pay taxes was not infrequent although long ago. Her tax liability issues arose from her involvement in a business which was never incorporated, but run as a sole proprietorship, a business format which would leave her legally liable for the debts of the business. The business closed six or seven years ago. Since this time, she has not attempted to operate another business; rather, she works for a company. In addition, she has not incurred any additional tax problems unrelated to the business operation.

MC ¶ 26 (b) the conditions that resulted in the financial problem were largely beyond the person's control (e.g., loss of employment, a business downturn, unexpected medical emergency, or a death, divorce or separation), and the individual acted responsibly under the circumstances has no applicability because an individual has the responsibility to assure that when operating a business, sufficient funds exist to pay taxes. Poor business management is not a condition beyond an individual's control.

Applicant never met with a financial counselor and significant back taxes are due. Thus, MC \P 20 (c) the person has received or is receiving counseling for the problem and/or there are clear indications that the problem is being resolved or is under control has no applicability.

MC ¶ 20 (d) the individual initiated a good-faith effort to repay overdue creditors or otherwise resolve debts may apply. Applicant's tax issues are significant. She has not ignored her problem nor did she fail to file her taxes. Rather, her tax liabilities arose because she and stepfather did not properly manage the logging business and its related tax liabilities. For several years, she worked with the IRS on paying the taxes. After closing the business, she continued to actively work on resolving her tax

liability. She offered a compromise settlement of her debt, which the IRS rejected. Nine months ago, she again offered the IRS a compromise settlement of her debt and/or payment through an installment plan. After months of no response, she visited her local IRS office to find out about her case. Thirty days later, the IRS wrote a letter acknowledging her request for an installment agreement and requested time to review a complete financial statement. She has not ignored or refused to acknowledge her tax liability issues. She has made a good faith effort to resolve her problems with the IRS, but is currently hampered by the slowness of the IRS. Her old, unpaid state taxes are being repaid slowly through the state's application of her yearly refunds to her debts. Because of the tax liens, she cannot obtain financing to pay her tax debt in full.³¹

As a general rule, the IRS must prepare and file an assessment of income tax it believes due within three years after the return is filed. See 26 U.S.C. § 6501(a). Once an assessment is complete, it has 60 days to give notice and a demand for payment of the tax due to the person liable. See 26 U.S.C. § 6303(a). Once the notice and demand are made, a lien in favor of the United States automatically arises. See 26 U.S.C. § 6321. The IRS must file a levy or institute court proceedings within 10 years after the tax assessment to collect the tax lien. See 26 U.S.C. § 2602(a)(1); United States v. Galletti, 541 U.S. 114, 119 (2004). The running of the statute of limitations is tolled during a bankruptcy proceeding, see United States v. Doe, 438 F.Supp.2d (S.D. Ohio 2006), by agreements (made before Dec. 20, 2000), see United States v. Ryals, 480 F.3d 1101, 1106(11th Cir. 2007), or while an offer in compromise (made on or after Dec. 31, 1999) is pending. 26 U.S.C. § 6404(a) provides for abatement of an assessment when it is uncollectible. The state law also generally follows the 3-year and 10-year statute of limitations used by the IRS. See Code § 12-54-85.

Although Applicant believes that her 1996 liens are beyond the collection period, she indicated that she made earlier offers in compromise, which were rejected by the IRS. Because the file lacks more specific information about the earlier offers of compromise, all of her unpaid taxes may still be collectible. She did make an offer of compromise in August 2006, which is currently being considered even though the IRS has considered her outstanding taxes uncollectible. At this time, the status of her federal tax liability remains unresolved. Her unpaid state taxes are slowly being repaid.

Whole Person Analysis

In all adjudications, the protection of our national security is the paramount concern. The objective of the trustworthy determination process is the fair-minded, commonsense assessment of a person's life to make an affirmative determination that the person is eligible for assignment to sensitive duties. Indeed, the adjudicative process is a careful weighing of a number of variables in considering the "whole person" concept. It recognizes that we should view a person by the totality of her acts, omissions, motivations and other variables. Each case must be adjudged on its own merits, taking into consideration all relevant circumstances, and applying sound judgment, mature thinking, and careful analysis.

Because the IRS has determined that Applicant' unpaid taxes are "uncollectible", her potential vulnerability to improper financial inducements because she is "financially overextended" has been eliminated. This determination does not negate her past conduct in not paying her outstanding taxes. Applicant's tax problems arose as a result of her naivete about running a business and her reliance on

³¹MC ¶¶ 20(e) and (f) are not applicable in this case.

her stepfather. She became involved in a logging business with her stepfather when she was young and inexperienced. She assumed responsibilities for business expenses, including tax liability, in an unincorporated business without realizing the nature and extent of the problems which would become her personal responsibility. She lacked proper business operational skills when she became involved in the logging business, and received little guidance on good business practices from her stepfather. Thus, these factors contributed to her lack of understanding of the business's tax issues. She did not fail to file her taxes nor did the business fail to provide tax money to the IRS; rather, it appears that the business lacked sufficient funds to pay the full amount of its tax bill. Ultimately, the liability for the unpaid taxes became hers because the business was a sole proprietorship. Slowly, she realized the extent of her problems caused by the business and developed a working relationship with the IRS in an effort to resolve her tax problems. She continues to work towards a resolution of the federal tax issues even though the IRS has declared her unpaid taxes uncollectible. She has not avoided her tax liability problems nor has she ignored them. Due to the slowness of working through the IRS system and the impossibility of obtaining financing to immediately resolve her tax liability, this issue remains unresolved. While she has not taken a more aggressive approach to resolving her state tax issues, the issues are being slowly resolved.

She manages her regular monthly expenses and remains current on her debt payments. Her supervisor praises her work skills, including her ethics and commitment to working in the company's best interest. He considers her an asset, reliable, and trustworthy. I have weighed the mitigating factors against the seriousness of her unpaid tax liability. I have concluded that under the specific circumstances of this case, she would not act in a manner which would harm her employer or the government. There is little likelihood she would violate the privacy rights she must protect in order to resolve her tax problems. Applicant has mitigated the government's concerns pertaining to financial considerations.

FORMAL FINDINGS

Formal Findings for or against Applicant on the allegations set forth in the SOR, as required by Section E3.1.25 of Enclosure 3 of the Directive, are:

SOR ¶ 1-Guideline F: FOR APPLICANT Subparagraphs a-p: For Applicant

DECISION

In light of all of the evidence presented in this case, it is clearly consistent with the national interest to grant Applicant eligibility for assignment to sensitive duties. Eligibility is granted.

Mary E. Henry Administrative Judge