Treasury Inspector General for Tax Administration

PROCESSES FOR DETERMINING WHETHER TO LEASE OR PURCHASE COMPUTER EQUIPMENT NEED TO BE IMPROVED

Issued on August 10, 2007

Highlights

Highlights of Report Number: 2007-20-120 to the Internal Revenue Service Chief, Agency-Wide Shared Services, and Chief Information Officer.

IMPACT ON TAXPAYERS

Lease contract files did not contain complete information to conduct a lease versus purchase analysis. When all lease versus purchase requirements are not considered and documented, it is difficult for Internal Revenue Service (IRS) executives to make an informed decision on whether to lease or purchase computer equipment and taxpayer funds may not be spent wisely.

WHY TIGTA DID THE AUDIT

The IRS has over 100,000 employees, many of whom use computers to perform their jobs. It spends millions of dollars to purchase and lease computer equipment to process tax records and to assist employees in performing their jobs. The Federal Acquisition Regulation requires agencies to consider whether to lease or purchase equipment based on a case-by-case evaluation of comparative costs and other factors.

According to the IRS' latest financial statements, it has approximately $1.7 billion in computer equipment inventory, consisting of mainframe computers, minicomputers, servers, desktop and laptop computers, and telecommunications equipment. The IRS purchases the majority of its computer equipment; however, as of December 2006, it had 4 open computer equipment leases costing approximately $53 million through Fiscal Year 2010. The objective of this audit was to determine whether the IRS had adequate internal controls in place to decide whether to lease or purchase computer equipment.

WHAT TIGTA FOUND

The IRS considered certain Federal Acquisition Regulation requirements when determining whether to lease or purchase computer equipment in each lease reviewed. For example, purchase options were considered as well as rental and maintenance costs over the life of the lease. However, the lease contract files did not contain a well-documented cost/benefit analysis or complete information to conduct a lease versus purchase analysis. For example, one contract file shows the lease payments over the term of one lease exceeded the purchase price at the inception of the lease by about $1.1 million, indicating a purchase would have been more economical to the IRS.

In addition, one lease contract file did not contain sufficient documentation to accurately determine or explain adjustments to lease costs when the IRS processed modifications to the contract. For example, one of the contractor quotes specifically cross-referenced in a contract modification was $315,537 lower than the price shown on the contract modification, indicating the IRS paid more for computer equipment than what was quoted by the contractor.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Chief Information Officer and the Chief, Agency-Wide Shared Services, work together to develop and implement a complete process to ensure all factors in the Federal Acquisition Regulation are considered and documented. To ensure the IRS has not overpaid or underpaid the contractor, TIGTA recommended the Chief, Agency-Wide Shared Services, perform a quality review of one lease contract.

In their response to the report, IRS officials agreed with TIGTA's recommendations. IRS management plans to update two Policy and Procedure Memoranda to include references to the applicable Federal Acquisition Regulation requirements, such as a cost/benefit analysis, and to require input, coordination, and consensus be obtained from the Chief Information Officer regarding the lease or purchase decision. In addition, the Chief Information Officer plans to issue a directive requiring purchasers of IRS computer equipment to fully comply with the requirements outlined in the two Policy and Procedure Memoranda. To ensure the IRS has not overpaid or underpaid a contractor, the IRS Contracting Officer is working with the contractor to obtain additional supporting documentation, plans to complete a thorough analysis of the documentation to determine whether the IRS has underpaid or overpaid the contractor, and plans to initiate appropriate actions as determined necessary.

READ THE FULL REPORT

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

http://www.treas.gov/tigta/auditreports/2007reports/200720120fr.pdf.

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