



*Procurement Audit Results Indicate  
Problems Continue to Exist After  
Corrective Actions Were Implemented*

**September 14, 2010**

**Reference Number: 2010-10-088**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



## HIGHLIGHTS

### PROCUREMENT AUDIT RESULTS INDICATE PROBLEMS CONTINUE TO EXIST AFTER CORRECTIVE ACTIONS WERE IMPLEMENTED

## Highlights

Final Report issued on September 14, 2010

Highlights of Reference Number: 2010-10-088 to the Internal Revenue Service Chief of Agency-Wide Shared Services.

### IMPACT ON TAXPAYERS

As of March 15, 2010, the Internal Revenue Service's (IRS) Office of Procurement was responsible for administering 839 procurements with a value of approximately \$48 billion over the life of the procurements. TIGTA has conducted a number of acquisition audits and found that there were concerns with the procurement process. While the IRS took corrective actions to address many of the findings when the TIGTA reports were originally issued, TIGTA has continued to find recurring problems. Until the IRS implements effective internal controls, it will be unable to provide assurance that the Federal Government is receiving the best value for procurements or that contractors are meeting the procurements' terms and conditions to deliver goods or services.

### WHY TIGTA DID THE AUDIT

This audit was initiated to identify and categorize IRS acquisition findings identified in TIGTA audit reports issued from Fiscal Year 1999 through June 2009. This report also presents a high-level overview to provide IRS management with the ongoing risks that may affect its current and future procurements.

### WHAT TIGTA FOUND

Based on our analysis of 74 TIGTA audit reports conducted over an approximate 10-year period, TIGTA found that there were several problems that continued to exist even after corrective actions were taken by the IRS. This resulted in TIGTA issuing repeat recommendations in many of these areas. For example, in two different audit reports issued in Fiscal Year 2002, TIGTA

recommended that the IRS use performance-based procurements and firm fixed-price procurements whenever possible. Subsequent to these reports, TIGTA issued several reports with similar recommendations.

TIGTA also identified trends where the IRS did not have sufficient monitoring controls or processes to ensure contractors were meeting the procurements' terms and conditions; contractors did not provide adequate documentation to support invoice charges; invoices included unallowable labor, travel, or maintenance charges; and modernization contracts failed to achieve their objectives or intended benefits. One of the most common recurring issues was the need for improved monitoring by the Office of Procurement's Contracting Officers and the program offices' Contracting Officer's Technical Representatives.

Collectively, these trends are a concern because they indicate that the IRS continued to use inadequate controls, processes, and practices to award and monitor procurements during this 10-year period. The IRS Office of Procurement advised us it has started new initiatives that address some of the issues and trends that are presented in this report. In addition, the IRS needs to improve the control environment to reduce the risk of similar problems in the future. TIGTA believes it is critical that the IRS include prior audit findings and recommendations as part of its overall annual risk assessment for acquisitions to ensure that the necessary internal controls are implemented and are working effectively.

### WHAT TIGTA RECOMMENDED

TIGTA did not make recommendations in this report. In their response to the report, IRS officials agreed that increasing both performance-based and firm fixed-price contracting has been challenging over the past 10 years, but added that they have made significant progress in both of these areas and have identified several new initiatives to address other trends. IRS officials stated that had TIGTA performed an analysis of corrective actions implemented in response to past audit reports, this report would more accurately reflect the progress the IRS has made.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 14, 2010

**MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES**

**FROM:** *Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Procurement Audit Results Indicate Problems  
Continue to Exist After Corrective Actions Were Implemented  
(Audit # 200910033)

This report presents the results of our review of the procurement issues identified in prior Treasury Inspector General for Tax Administration audit reports. The objective of this review was to identify and categorize acquisition issues that were identified in Treasury Inspector General for Tax Administration audits issued from Fiscal Year 1999 through June 2009 in an effort to minimize risks associated with future Internal Revenue Service acquisitions. This review is included in our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Credits and Payments.

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

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report finding. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.



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*Abbreviations*

COTR	Contracting Officer's Technical Representative
IRS	Internal Revenue Service
OMB	Office of Management and Budget
TIGTA	Treasury Inspector General for Tax Administration



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## *Background*

The Treasury Inspector General for Tax Administration (TIGTA) issued 74 audit reports<sup>1</sup> addressing procurements by the Internal Revenue Service (IRS) during the period Fiscal Year 1999 through June 2009. We conducted this review to identify and categorize IRS acquisition issues that were identified in these TIGTA audits. Appendix IV contains the number of audit reports issued by year, with the corresponding number of findings, recommendations, and corrective actions included in the reports. Appendix V shows the outcome measures by type.

We also evaluated IRS initiatives and the most significant policy and procedural changes affecting IRS procurements during our audit period. Some of these changes resulted from legislation, regulatory reform, or Office of Management and Budget (OMB) policy issuances, while others occurred due to internal or Government-wide process improvement initiatives.<sup>2</sup> These changes were accompanied by the need to develop new controls for the new initiatives and requirements or to update and strengthen controls as the procurement environment evolved.

One major initiative that has affected IRS procurements since Calendar Year 1999 is the IRS Business Systems Modernization Program. This program is a complex effort to modernize IRS technology and related business processes. As of Fiscal Year 2010, the Business Systems Modernization Program is in its 11<sup>th</sup> year and has received more than \$3 billion for contractor services and internal IRS costs. Another important issue affecting IRS acquisitions has been the greater emphasis on security, including computer system security and security requirements for contractor personnel. Other issues affecting IRS acquisitions over the past decade include:

- The recent development of a “Green” Procurement Plan<sup>3</sup> within the Office of Procurement.
- Recent legislation, such as the American Recovery and Reinvestment Act of 2009,<sup>4</sup> which encouraged competitively awarded firm fixed-price procurements and the use of small business contractors.

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<sup>1</sup> See Appendix IV for the number of reports issued by fiscal year.

<sup>2</sup> The IRS Office of Procurement provided us with a summary of the legislation, regulations, policy issuances, and process improvements it believed had the greatest influences on IRS acquisitions during the last decade.

<sup>3</sup> “Green” procurement is one of the program elements of the IRS’ Environmental Program to ensure sound environmental stewardship, the prevention of environmental incidents, compliance with all relevant environmental regulations, and the promotion of continual improvement in environmental performance.

<sup>4</sup> Pub. L. No. 111-5, 123 Stat. 115 (2009).



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- Automation, including electronic procurement initiatives and new automated systems for the primary purpose of either reporting procurement data or announcing information to the public or contractors.
- Training and certification of the acquisition workforce.

The need for a strategic approach towards acquisition is common across the Federal Government. A January 2007 report issued by the Acquisition Advisory Panel<sup>5</sup> to the Office of Federal Procurement Policy<sup>6</sup> and the United States Congress recommended that Federal agencies establish clear performance requirements, measurable performance standards, and a quality assurance plan to improve the use of performance-based contracting.<sup>7</sup> In addition, the Government Accountability Office issued a report in February 2007<sup>8</sup> in which it recommended that the Office of Federal Procurement Policy develop an oversight strategy or plan with milestones and reporting requirements to help it ensure the implementation of the advisory panel's recommendations and to gauge how they improve Federal acquisition.

There has also been an increased focus on the acquisition workforce. The Acquisition Advisory Panel report also stated that the size of the Federal acquisition workforce has remained relatively stable since 1999, while the volume and complexity of Federal contracting has mushroomed. The report recommended that all agencies begin acquisition workforce human capital planning immediately. Our review did not address the sufficiency of the size or experience and skill levels of the IRS acquisition workforce; however, this is being reviewed in another ongoing TIGTA audit, which was initiated in April 2010.<sup>9</sup>

In addition to the broad procurement environment changes, we evaluated the IRS' procurement program data for our audit period and compared that data to the data as of March 2010, the end of our fieldwork. The data included the total numbers, dollar value, and contract types<sup>10</sup> of IRS procurements and trends for staffing levels within the Office of Procurement. As of

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<sup>5</sup> The Acquisition Advisory Panel was authorized by Section 1423 of the Services Acquisition Reform Act of 2003, which was enacted as part of the National Defense Authorization Act for Fiscal Year 2004.

<sup>6</sup> The Office of Federal Procurement Policy in the OMB was established by Congress in 1974 to provide overall direction for Government-wide procurement policies, regulations, and procedures and to promote economy, efficiency, and effectiveness in acquisition processes.

<sup>7</sup> Performance-based contracting is a method of contracting for which the Government defines the results it is seeking, rather than the process by which those results are attained. The benefits include better prices and performance, the Government is released from having to develop detailed specifications and define the process, the contractor has more flexibility on how it achieves the desired results, less day-to-day surveillance is required, and contractors are motivated to be innovative and to save money.

<sup>8</sup> *Oversight Plan Needed to Help Implement Acquisition Advisory Panel's Recommendations* (GAO-08-160, dated December 2007).

<sup>9</sup> On April 12, 2010, the IRS was advised of the audit *Internal Revenue Service Acquisition Workforce* (Audit Number 201010012).

<sup>10</sup> See Appendix VI for trends in contract types, Appendix VII for trends in staffing levels, and Appendix VIII for trends in total numbers and dollar value of procurements.



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March 15, 2010, the Office of Procurement was responsible for administering 839 procurements; 664 in contracts of varying types (including associated task and delivery orders) and 175 in Blanket Purchase Agreements and Interagency Contracts and Agreements. Procurement records show that the number of procurements has remained relatively steady since April 15, 2005, when there were 871 procurements. However, the total value of the procurements increased from \$43.6 billion to approximately \$48 billion since April 2005. For our 10-year audit period, the Office of Procurement's authorized staffing<sup>11</sup> has remained constant while its operating budget has nearly doubled. Specifically, the Office of Procurement's staffing level was at 542 employees as of September 2000 and 537 employees as of September 2009. However, the operational costs for the Office of Procurement increased significantly, from \$43.4 million in September 2000 to \$78.3 million in September 2009, an increase of \$34.9 million (or about 80 percent).<sup>12</sup>

This review was performed at the Office of Procurement in Oxon Hill, Maryland, during the period October 2009 through March 2010. We did not evaluate internal controls because doing so was not applicable within the context of our objective. Otherwise, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>11</sup> See Appendix VII for the Office of Procurement authorized staffing details.

<sup>12</sup> See Appendix IX for the Office of Procurement annual operational budget levels. Approximately 70 percent of the operational cost increase is due to increases in salaries and benefits and an additional 28 percent of the increase is related to increases in support costs which include training and computer support.



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## *Results of Review*

Based on our review of the 74 TIGTA audit reports, we found that there were several findings<sup>13</sup> that continued to exist throughout our audit period. For the most part, the 111 findings and 200 related recommendations<sup>14</sup> identified in these 74 reports were unique and could not easily be placed into defined categories. However, the TIGTA made repeat recommendations in some areas. For example, in two different audit reports issued in Fiscal Year 2002, the TIGTA recommended that the IRS use performance-based procurements and firm fixed-price procurements whenever possible.<sup>15</sup> Subsequent to these reports, the TIGTA issued several additional reports containing similar recommendations. We also identified other trends, such as: the IRS did not have sufficient monitoring controls or processes to ensure contractors were meeting the procurements' terms and conditions, contractors did not provide adequate documentation to support invoice charges, invoices included unallowable labor and travel charges, and modernization contracts failed to achieve their objectives or intended benefits. One of the most common recurring issues was the need for improved monitoring by the Office of Procurement's Contracting Officers and the program offices' Contracting Officer's Technical Representatives (COTR).<sup>16</sup>

Collectively, these trends are a concern because they indicate that the IRS continued to use inadequate controls, processes, and practices to award and monitor procurements during this period. The IRS needs to improve the control environment to reduce the risk of similar problems in the future. Until this occurs, the IRS will be unable to provide assurance that the Federal Government is receiving the best value for its procurements and/or that contractors are meeting the procurements' terms and conditions. To accomplish this, we believe it is critical that the IRS

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<sup>13</sup> The TIGTA's audit reports identify issues that require the IRS' attention to improve its administration of the tax laws. These issues (called "findings") are followed with recommendations to the IRS suggesting ways to address the issue. The IRS responds to the TIGTA's audit reports and includes in its response "corrective actions" that are designed to address the report's recommendations and the related problems identified in the audit reports.

<sup>14</sup> See Appendix IV for the number of findings and recommendations per year.

<sup>15</sup> See Appendix X for a listing of the TIGTA reports addressing the use performance-based procurements and firm fixed-price procurements.

<sup>16</sup> A Contracting Officer is a person with the authority to enter into, administer, and/or terminate contracts and make related determinations and findings. The COTR is a person designated by the Contracting Officer to perform certain technical and administrative tasks related to a specific contract. The primary role of the COTR is to monitor the contractor's performance, ensure that the contractor delivers what is called for in the terms and conditions of the contract, and serve as the technical liaison between the contractor and the Contracting Officer.



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include prior audit findings and recommendations as part of its overall annual risk assessment<sup>17</sup> for acquisitions to ensure that the necessary internal controls are implemented and are working effectively.

***Recurring Audit Findings and Recommendations Indicate Corrective Actions Were Not Sufficient to Resolve Problems***

We found several instances of repeat or similar findings or recommendations occurring over the years covered by our audit period. The IRS took corrective actions to address many of the recommendations included in the reports we reviewed. However, the repeat findings and recommendations are an indication that the corrective actions were not effective.<sup>18</sup>

We identified two issues for which the TIGTA made several repeat recommendations—the use of performance-based contracting and the use of firm fixed-price contracts. In Fiscal Year 2002, the TIGTA recommended that the IRS use performance-based contracting whenever possible. While the IRS agreed with the recommendation, it did not agree with the TIGTA’s method for implementing the recommendation. As a result, the IRS did not implement any corrective actions for this recommendation. In Fiscal Year 2005, the TIGTA issued a second report containing a similar finding and recommendation. In this instance, while the IRS did not reject the TIGTA’s recommendation, the TIGTA did not believe that the IRS’ corrective action was adequate to address the issues noted in the report. Three additional reports containing similar findings and recommendations were issued since the Fiscal Year 2005 report. While the IRS implemented corrective actions in response to these reports when they were originally issued and has subsequently taken additional actions, we did not evaluate these actions in this audit to determine if the IRS effectively addressed the issue. However, as of March 31, 2010, the IRS reported that 49 percent of eligible contracts were performance-based which exceeds the Department of the Treasury’s Fiscal Year 2010 goal of 40 percent.<sup>19</sup>

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<sup>17</sup> OMB Circular A-123 (December 2004) defines management’s responsibility for internal control in Federal agencies. The purpose of the Circular is to improve the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. When assessing risks, management should take into account previous audit findings, internal management reviews, or noncompliance with laws and regulations. In May 2008, the OMB issued a memorandum to Chief Acquisition Officers, *Conducting Acquisition Assessments Under OMB Circular A-123*, which provides guidelines for conducting entity-level internal control reviews of the acquisition function as required by Circular A-123.

<sup>18</sup> Our review did not assess the effectiveness of the corrective actions that did not fall into the categories discussed here, so we are not commenting on whether they adequately addressed the reported findings.

<sup>19</sup> Federal Procurement Data System-Next Generation statistics demonstrate the IRS awarded \$262,556,513 as performance-based acquisitions out of \$539,915,066 eligible actions, thereby resulting in 49 percent of the awarded eligible service contracts implementing performance-based acquisitions through the second quarter of Fiscal Year 2010.



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The TIGTA reported in Fiscal Year 2002 that the IRS' use of firm fixed-price contracts had decreased and recommended that the IRS use firm fixed-price contracts whenever possible. The IRS agreed with this recommendation and implemented corrective actions. However, in Fiscal Year 2005, the TIGTA issued another report addressing the need for the IRS to increase the use of firm fixed-price contracts. While the IRS agreed to the overall recommendation, the TIGTA stated that the IRS' corrective actions would not correct the identified issue. In Fiscal Years 2007 and 2009, the TIGTA issued two additional reports with similar findings and recommendations.

During our review, we found that as of March 15, 2010, only a little over half of the IRS contracts were firm fixed-price contracts.<sup>20</sup> When considered as a percentage of the total number of procurements, fixed-price procurements decreased from 66 percent to 56 percent from Fiscal Year 2005 to March 2010. However, when considered as a percentage of the total dollar value of procurements, they increased from 13 percent to 33 percent from Fiscal Year 2005 to March 2010. As of March 15, 2010, the total value of the cost-reimbursement type contracts, including option years, was \$17 billion. The selection of the proper contract type is important because under firm fixed-price contracts, the contractor is paid only for those costs agreed to in the contract, which limits the financial risk to the Federal Government. For cost-reimbursement contracts, the contractors are reimbursed for all their costs, which is a higher monetary risk to the Federal Government.

In addition to the above issues, we identified several broader trends involving similar findings relevant to the procurement process. The IRS took corrective actions to address many of these findings when the TIGTA reports were originally issued; however, the actions were usually focused on the specific findings presented in the reports and may not have comprehensively addressed the risk area across the procurement process. We have not conducted followup audits on all 74 of the reports we analyzed as part of this review and, therefore, can not comment on whether any of the corrective actions taken were effective. However, collectively, the trends indicate that the IRS' control environment over procurements needs strengthening. Examples of these trends include:

- The IRS lacked monitoring controls or processes to ensure that the contractors were meeting the contract terms and conditions. Specifically, the IRS did not verify that contractors were sufficiently qualified to perform their duties, that charges submitted for vendor invoices were accurate and allowable, and that performance levels were met. For example, in one report, contractors did not provide adequate documentation to support invoice charges,<sup>21</sup> and in another report, the IRS paid for unallowable labor and travel

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<sup>20</sup> See Appendix VI for the types of contracts.

<sup>21</sup> *Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract* (Reference Number 2000-10-028, dated February 15, 2000).



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charges.<sup>22</sup> The TIGTA's recommendations in these reports addressed the need for the IRS to enhance its reviews of vendor invoice submissions and recover the unsupported charges that constituted improper payments to the contractor. As a result of these recommendations, the TIGTA identified a total \$4.6 million in questioned costs for vendor invoices reviewed during our audit period.

- The IRS needed to more clearly define project requirements and specifications in the Statements of Work<sup>23</sup> supporting contracts and task or delivery orders. These include the need for 1) greater assurance that expected benefits would be realized, 2) specifically defining requirements, and 3) a means to hold contractors accountable. For example, the TIGTA reported that needed tasks for the procured system were not clearly established and, as a result, critical portions of the procured system did not operate as expected.<sup>24</sup>
- IRS contractors did not comply with the IRS' internal procedures and processes. These included findings that funding was not properly controlled, project costs were not always charged to the appropriate accounting code, and the IRS was not following its own procurement processes. For example, in one report, the TIGTA found that the IRS did not comply with internal procedural requirements for obtaining proper reviews and approval of requisitions.<sup>25</sup> Thus, the procurements were at risk for being executed without proper authorization.
- Modernization contracts failed to meet their scheduled completion dates or achieve their intended objective and benefits. For example, the TIGTA found that one modernization project continued to change the necessary system requirements, which resulted in schedule delays and the continued risk of the project being postponed and not fulfilling requirements.<sup>26</sup>

Many of these recurring findings relate to inadequate monitoring of the procurements by the IRS Office of Procurement's Contracting Officers and the program offices' COTRs. In addition to the 74 TIGTA reports we reviewed, a Fiscal Year 2009 TIGTA report<sup>27</sup> found that the IRS'

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<sup>22</sup> *Audit of the Asset Seizure and Forfeiture Program Contract* (Reference Number 2004-10-174, dated September 21, 2004).

<sup>23</sup> The Statement of Work is a technical description of the program requirement and is the basis upon which contractors prepare proposals, contracts are awarded, and performance is monitored.

<sup>24</sup> *The Tax Exempt Determination System Release 1 Delivered Only a Small Portion of the Expected Benefits and Significantly Exceeded Cost Estimates* (Reference Number 2006-10-174, dated September 26, 2006).

<sup>25</sup> *All Small-Scale Information Technology Projects Should Be Included in the Investment Inventory, and Related Procurement Requisitions Should Be Properly Reviewed and Approved* (Reference Number 20005-20-050, dated March 16, 2005).

<sup>26</sup> *Vital Decisions Must Be Made to Ensure Successful Implementation of Customer Account Data Engine Capabilities* (Reference Number 2007-20-080, dated July 13, 2007).

<sup>27</sup> *Controls Over the Contracting Officer's Technical Representatives Workforce Were Ineffective, Resulting in Significant Risks to the Government* (Reference Number: 2009-10-139, dated September 30, 2009).



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contract administration was ineffective. As a result, the IRS could not ensure that payments were made only to contractors who performed in accordance with the procurements' terms and conditions and that taxpayer dollars were not being misspent. To ensure effective contract administration, the IRS needs to address the recommendations in that report and ensure it has qualified acquisition employees at sufficient staffing levels to carry out this key responsibility.

The intention of our review was to identify trends in acquisition findings and recommendations in the TIGTA reports and, accordingly, we are not making any new recommendations in this report. The IRS Office of Procurement advised us it has started new initiatives that address some of the issues and trends that are presented in this report.<sup>28</sup> In addition, the IRS should take steps to implement the Acquisition Advisory Panel's recommendations<sup>29</sup> and improve its overall annual risk assessment for acquisitions. These actions should reduce the risk of similar findings and recommendations in future TIGTA audits of IRS procurements.

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<sup>28</sup> The IRS Office of Procurement provided us with information on several initiatives it is undertaking regarding acquisition planning, performance-based contracting, and its receipt and acceptance processes. We did not evaluate the effectiveness of these initiatives in addressing prior findings as a part of this review.

<sup>29</sup> The majority of the Panel's recommendations were made to the Office of Federal Procurement Policy within the OMB, while the others were directed to Congress and Federal agencies.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to identify and categorize IRS acquisition issues that were identified in TIGTA audit reports issued from Fiscal Year 1999 through June 2009 in an effort to minimize risks associated with future IRS acquisitions. To accomplish our objective, we:

- I. Contacted IRS Procurement personnel and identified how the procurement of goods and services has changed from Fiscal Year 1999 through June 2009, including the number and types of acquisitions initiated by the IRS and the size of the workforce administering the procurements. We did not perform any procedures to validate the accuracy and reliability of the procurement data provided by the IRS.
- II. Reviewed 74 IRS procurement-related reports issued by the TIGTA from Fiscal Year 1999 through June 2009 for the purpose of identifying and categorizing the findings and recommendations reported.
- III. Determined whether the IRS took corrective actions to address all recommendations identified in the TIGTA procurement audits conducted from Fiscal Year 1999 through June 2009.
- IV. Reviewed one report issued in September 2009 regarding the effectiveness of procurement monitoring controls.

#### **Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We did not evaluate internal controls because doing so was not applicable within the context of our objective. In addition, we did not perform a separate internal control assessment as these would have been performed for the 74 audit reports we reviewed.



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**Appendix II**

*Major Contributors to This Report*

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William E. Thompson, Auditor  
Brett C. Thornock, Auditor



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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Deputy Commissioner for Services and Enforcement SE  
Director, Office of Procurement OS:A:P  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
    Deputy Commissioner for Operations Support OS  
    Deputy Commissioner for Services and Enforcement SE  
    Chief, Agency-Wide Shared Services OS:A  
    Director, Office of Procurement OS:A:P



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## Appendix IV

### *Number of Procurement-Related Audit Reports Issued by Year With the Corresponding Number of Findings, Recommendations, and Corrective Actions*

The following table provides an analysis of the 74 procurement-related audit reports issued by the TIGTA during the period Fiscal Year 1999 through June 2009.

<b>Fiscal Year</b>	<b>Number of Reports Issued</b>	<b>Total Findings</b>	<b>Total Recommendations</b>	<b>Number of Recommendations Rejected</b>	<b>Number of Corrective Actions</b>	<b>Number of Corrective Actions Implemented<sup>1</sup></b>
Through June 2009	3	7	9	0	9	4
2008	8	10	18	0	35	34
2007	12	18	29	0	32	31
2006	9	6	10	3	8	8
2005	10	13	32	4	30	30
2004	11	20	36	5	45	43
2003	4	6	9	0	9	9
2002	7	14	29	4	30	30
2001	3	0	0	0	0	0
2000	4	8	17	1	17	17
1999	3	9	11	0	10	10
<b>Totals</b>	<b>74</b>	<b>111</b>	<b>200</b>	<b>17</b>	<b>225</b>	<b>216</b>

*Source: TIGTA issued reports and Joint Audit Management Enterprise System Corrective Action Forms.*

<sup>1</sup> As of July 2009.



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**Appendix V**

*Total Outcome Measures<sup>1</sup> by Type*

Some of the 74 procurement-related audit reports issued by the TIGTA during the period Fiscal Year 1999 through June 2009 included outcome measures. The following chart shows the total outcome measures by type of measure included in the final reports. We did not obtain the actual outcomes for the potential outcomes that may have been realized after our reports were issued.

<b>Type of Outcome Measure</b>	<b>Potential Outcomes</b>	<b>Actual Outcomes</b>
Increased Revenue	\$180,485	\$0
Cost Savings	\$18,794,317	\$6,853,536
Inefficient Use of Resources	\$0	\$3,719,844
Protection of Resources/ Reliability of Information	\$160,322,430	\$121,445,258
<b>Total</b>	<b>\$179,297,232</b>	<b>\$132,018,638</b>

Source: TIGTA issued reports.

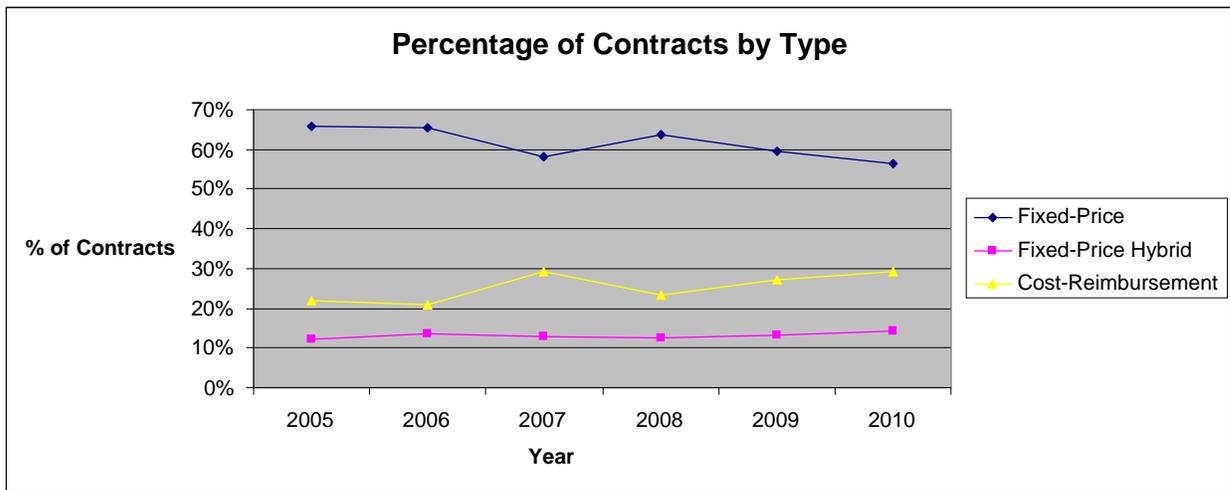
<sup>1</sup> The TIGTA also identifies the measurable impact that our recommended actions will have on tax administration. These impacts are referred to as “outcomes” and are presented as both “potential” and “actual.” The Office of Audit also conducts followup reviews on some of the corrective actions to determine if their implementation adequately addressed the reported issue.



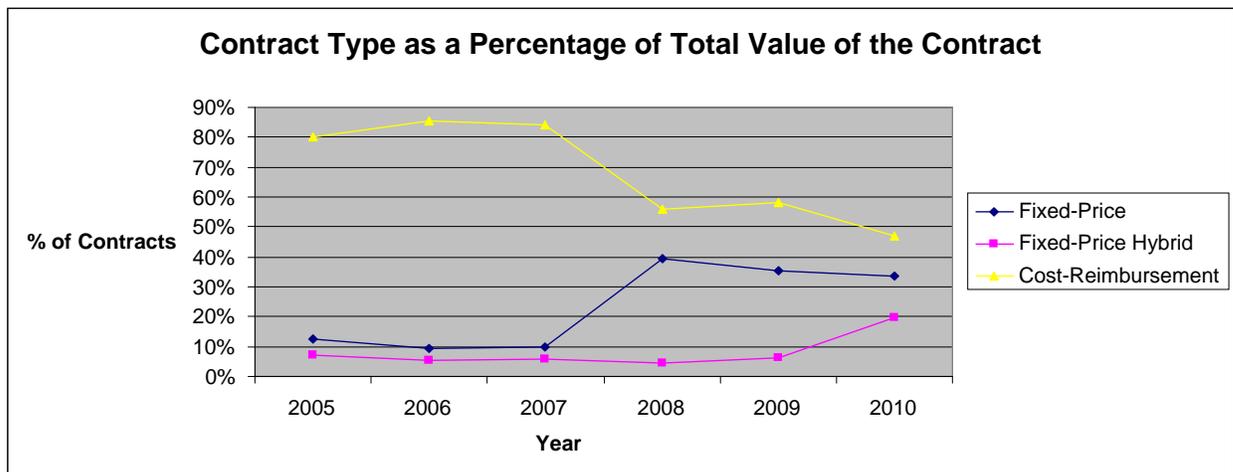
*Procurement Audit Results Indicate  
Problems Continue to Exist After  
Corrective Actions Were Implemented*

**Appendix VI**

*Use of Different Contract Types  
During the Period 2005–2010<sup>1</sup>*



Source: IRS Office of Procurement Active Contract Listings.



Source: IRS Office of Procurement Active Contract Listings.

<sup>1</sup> Because the IRS Office of Procurement Active Contract Listings are continuously updated and maintained on a cumulative basis, we obtained the listing report with data as of April 13, 2005; March 31, 2006; March 31, 2007; March 31, 2008; May 13, 2009; and March 15, 2010 for the basis of our comparison.



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**Appendix VII**

*Office of Procurement Authorized Staffing  
Levels Fiscal Years 2000–2009<sup>1</sup>*

<b>Fiscal Year</b>	<b>Total Staffing</b>
2000	542
2001	546
2002	528
2003	508
2004	528
2005	561
2006	544
2007	557
2008	550
2009	537

*Source: IRS Office of Procurement.*

<sup>1</sup> Staffing includes the position categories of Specialists, Program Managers, Analysts, Contracting Specialist/Officer, Purchasing, and various Administrative and Clerical. Staffing levels do not include the COTRs in the IRS' operating divisions but do include vacancies for positions within the IRS Office of Procurement. The number of vacancies ranged from 71 in Fiscal Year 2000 to 41 in Fiscal Year 2009.



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**Appendix VIII**

*Number and Total Value of Internal Revenue Service  
Procurements*

<b>Calendar Year</b>	<b>Number of Procurements</b>	<b>Total Value (including option years)<sup>1</sup></b>
2005	871	\$43,558,918,446
2006	839	\$70,621,796,339
2007	803	\$70,736,332,246
2008	905	\$45,791,453,271
2009	836	\$43,222,479,019
2010	839	\$48,143,496,760

*Source: IRS Active Contract Listings.*

<sup>1</sup> The IRS has a unilateral right specified in a contract by which, for a specified time, the Government may elect to purchase additional supplies or services called for by the contract, or may elect to extend the term of the contract for additional years (option years) without having to award a new procurement.



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**Appendix IX**

*Office of Procurement's Operational Budget<sup>1</sup> Levels  
Fiscal Years 2000–2009*

<b>Fiscal Year</b>	<b>Total Budget</b>
2000	\$43,372,252
2001	\$52,056,694
2002	\$57,730,764
2003	\$57,836,618
2004	\$61,347,499
2005	\$65,595,352
2006	\$73,248,869
2007	\$76,625,572
2008	\$76,269,289
2009	\$78,343,076

*Source: IRS Office of Procurement.*

<sup>1</sup> This is the Office of Procurement Operational Budget only and does not include the amount of the procurements.



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## **Appendix X**

### *Listing of the Reports Addressing the Use of Performance-Based and Firm Fixed-Price Procurements*

The following 9 TIGTA reports (from our population of 74 audit reports) address the 2 areas where we made several repeat recommendations.

#### **TIGTA Reports Addressing Performance Based Procurements**

- *The Business Systems Modernization Office Needs to Strengthen Its Processes for Overseeing the Work of the PRIME Contractor* (Reference Number 2002-20-059, dated March 1, 2002).
- *While Many Improvements Have Been Made, Continued Focus Is Needed to Improve Contract Negotiations and Fully Realize the Potential of Performance-Based Contracting* (Reference Number 2005-20-083, dated May 26, 2005).
- *The IRS Is Successfully Taking Steps to Transition Modernization Activities From the PRIME Contractor; However, Difficult Challenges Remain* (Reference Number 2007-20-003, dated October 24, 2006).
- *While Improvements Continue in Contract Negotiation Methods and Management Practices, Inconsistencies Need to Be Addressed* (Reference Number 2007-20-123, dated July 27, 2007).
- *Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized* (Reference Number 2008-10-098, dated April 11, 2008).

#### **TIGTA Reports Addressing Firm Fixed-Price Procurements**

- *Additional Improvements Are Needed in the Application of Performance-Based Contracting to Business Systems Modernization Projects* (Reference Number 2002-20-170, dated September 13, 2002).
- *While Many Improvements Have Been Made, Continued Focus Is Needed to Improve Contract Negotiations and Fully Realize the Potential of Performance-Based Contracting* (Reference Number 2005-20-083, dated May 26, 2005).



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- *While Improvements Continue in Contract Negotiation Methods and Management Practices, Inconsistencies Need to Be Addressed* (Reference Number 2007-20-123, dated July 27, 2007).
- *Current Practices Might Be Preventing Use of the Most Advantageous Contractual Methods to Acquire Goods and Services* (Reference Number 2009-10-037, dated February 10, 2009).



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**Appendix XI**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

August 4, 2010



MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: David A. Grant *David A. Grant*  
Chief, Agency-Wide Shared Services

SUBJECT: Draft Audit Report – Procurement Audit Results Indicate  
Problems Continue to Exist After Corrective Actions Were  
Implemented (Audit #200910033)

Thank you for the opportunity to respond to the subject audit report. The audit was conducted to identify and categorize Internal Revenue Service (IRS) acquisition issues that were identified in Treasury Inspector General for Tax Administration (TIGTA) audits issued from Fiscal Year 1999 through June 2009 in an effort to minimize risks associated with future IRS acquisitions.

The audit reviewed 74 previously issued audit reports. Although the majority of the resulting 111 findings and 200 related recommendations were unique in nature, two areas, the use of performance-based contracting and the use of firm fixed-price contracts, were thought to be problematic, producing repeat recommendations. The report also cites other "trends" which were of concern as TIGTA feels they indicate that the IRS continued to use inadequate controls, processes, and practices to award and monitor procurements.

We agree that increasing both performance-based and firm fixed-priced contracting has been challenging for the IRS Office of Procurement during the past ten years. However, we have made significant progress over the last several years in both of these areas. Our current statistics show that we are in fact, exceeding our Treasury set goal for performance-based contracting this fiscal year. And while no goal specifically for firm-fixed price contracting has been established, Executive Office of the President, Office of Management and Budget Memo M-09-25 does call for a 10 percent reduction to "high risk contract authorities" based on Fiscal Year 2008 total dollar value of procurements.



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The report states that, when considered as a percentage of the total dollar value of procurements, IRS Procurement has increased its use of firm-fixed price contracts from 13 percent in Fiscal Year 2005 to 33 percent as of March 2010.

As an organization, we practice continuous improvement. The progress made in the areas above is due to dedicated efforts including mandatory training for all Contracting Officers and Contract Specialists, monitoring by Contract Review Boards, and Quality Assurance reviews. Additionally, we have a significant number of initiatives identified to address the trends, including a number of new mandatory training courses for Contracting Officer's Technical Representatives and their managers.

While the report acknowledges changes in performance based and fixed-price contracts, it understates the significant improvements achieved. As stated in the report, TIGTA did not evaluate the effectiveness of corrective actions that have been implemented. Had the analysis been performed we feel the report would have more accurately reflected the progress made as a result of previous audit recommendations.

We appreciate your continued support and the valuable assistance and guidance your team provides. If you have any questions, please contact me or a member of your staff may contact Fred W. Martin, Director, Procurement, at (202) 283-1200.