



*Due to the Lack of Experienced Users, the
Benefits of Performance-Based Acquisition
Are Not Being Fully Realized*

April 11, 2008

Reference Number: 2008-10-098

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.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

April 11, 2008

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT

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

SUBJECT: Final Audit Report – Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized (Audit # 200710005)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) is effectively managing its use of performance-based acquisition (PBA) from preparation of performance work statements or statements of objectives through surveillance of service quality and performance. The Director, Procurement, requested this audit.

Impact on the Taxpayer

When used properly, PBA increases performance, innovation, and competition among interested vendors and results in better value for the Federal Government. In addition, it shifts much of the risk from the Federal Government to industry and allows the Federal Government to focus its monitoring efforts on the desired outcomes rather than on how the work is to be performed. This saves taxpayer dollars because significantly fewer contract administration resources are needed. However, we found the IRS consistently failed to meet the Office of Management and Budget (OMB) target achievement level for the use of performance-based methods. This occurred because IRS program offices have not yet adopted the view that they are primarily responsible for identifying the requirements that may be suited for PBA and for doing their part in meeting the OMB goals for use.



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

Synopsis

Our review of a judgmental sample of seven contracts that used PBA methods showed that they were performed in accordance with established guidelines. However, the IRS' overall use of PBA is well below the goals established by the Federal Government. A lack of internal expertise within program offices on how to implement PBA as an acquisition strategy, insufficient time to complete procurements, a lack of a vigorous planning phase, and the inability by program managers to define requirements contributed to the under use of PBA.

The Federal Acquisition Regulation¹ states that agencies must use PBA to the maximum extent practicable when acquiring services. The OMB sets Federal Government-wide goals for the use of PBA for eligible service actions of more than \$25,000. For each of the Fiscal Years 2004, 2005, and 2006, the Federal Government's goal was 40 percent. The IRS achieved 18 percent, 22 percent, and 13 percent, respectively, for the 3 years. Due to the tight time periods for completing procurements, which sometimes result from a lack of planning or the inability of program managers to define the requirements and desired outcomes of a contracting effort, the IRS Office of Procurement (Procurement) often must forego use of this acquisition strategy. To determine why PBA was not used more often, we reviewed 20 acquisitions that Procurement advised us would have been good PBA candidates. Only one Contracting Officer Technical Representative that we discussed these acquisitions with had had any formal PBA training. We believe that this lack of knowledge, education, and experience within the business units is one of the primary barriers for not using PBA. Because program offices, not Procurement, have the primary responsibility for defining requirements, we believe program office participation is essential to ensuring the effective use of PBA as a cost-effective business practice.

Recommendations

The Deputy Commissioner for Operations Support, with the support, assistance, and input from the Deputy Commissioner for Services and Enforcement, should ensure that program office management develops and implements a comprehensive plan to meet OMB goals for use of PBA methods. These methods should emphasize the collective responsibility to plan, manage, and execute PBA with cross-organizational teams and with significant participation and contribution by program offices. Further, if not already included, the insertion of PBA usage as a measure in individual performance standards may provide the necessary incentive to achieve PBA goals and advantages. In addition, program personnel with the authority to select the acquisition strategy appropriate for the procurement and those involved in writing contract requirements should be trained in performance-based methods. Program personnel should also consult with trained Procurement officials when deciding which type of procurement vehicle to choose to ensure that

¹ Subpart 37.1 – *Service Contracts – General*, Section 37.102, (a). *Policy* (2001).



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

contract requirements are compatible with PBA. Finally, the Director, Procurement, should continue to advocate and educate program personnel on the benefits of PBA.

Response

The IRS agreed with our recommendations. The Deputy Commissioner for Operations Support has signed a memorandum for distribution encouraging program office management to emphasize the importance of using the PBA methodology to the maximum extent practicable and their collective responsibility in planning, managing, and executing PBA. The memorandum urges program personnel and Contracting Officer Technical Representatives to become familiar with the “Seven Steps to Performance Based Acquisition” guide and to enroll in a PBA course. Among other initiatives, PBA will be identified as a High Priority Initiative requiring a detailed plan for improvement that identifies activities with scheduled start and completion dates and is updated and reported monthly to the Deputy Commissioner for Operations Support. However, IRS management believes inclusion of PBA use in performance standards should be at the discretion of business unit managers.

Procurement will continue to provide training opportunities for program office personnel through the Treasury Acquisition Institute but cannot require attendance at those courses. Individual managers make the determination based on employees’ assignments and developmental needs. In addition, the Advance Acquisition Planning Council will continue to emphasize and discuss development of PBA work statements with project managers in Advance Acquisition Planning Meetings for requirements supporting major and nonmajor investments.

Finally, Procurement has generated an action-forcing event memorandum that emphasizes the requirement for all program officials to use PBA strategies to the maximum extent practicable and the many opportunities offered by Procurement to learn about PBA. As a result, the Office of Procurement Policy has revised its policy and procedures to include a new requirement for an acquisition planning meeting with the Director, Procurement, for any contract action, other than firm-fixed price, that exceeds \$10 million. Management’s complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



*Due to the Lack of Experienced Users, the Benefits of
Performance-Based Acquisition Are Not Being Fully Realized*

Table of Contents

Background	Page 1
Results of Review	Page 3
Efforts to Implement Performance-Based Acquisition Have Fallen Short of Federal Government Goals.....	Page 3
<u>Recommendation 1:</u>	Page 5
Program Offices Lack Knowledge, Education, and Experience in the Use of Performance-Based Acquisition.....	Page 6
<u>Recommendations 2 and 3:</u>	Page 7
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 9
Appendix II – Major Contributors to This Report	Page 11
Appendix III – Report Distribution List	Page 12
Appendix IV – Management’s Response to the Draft Report	Page 13



*Due to the Lack of Experienced Users, the Benefits of
Performance-Based Acquisition Are Not Being Fully Realized*

Abbreviations

FY	Fiscal Year
IRS	Internal Revenue Service
OMB	Office of Management and Budget
PBA	Performance-Based Acquisition



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

Background

The Internal Revenue Service (IRS) uses a variety of approaches to obtain goods and services. One type of procurement, Performance-Based Acquisition (PBA), has begun to receive increased emphasis and priority within the Federal Government because it can increase performance, innovation, and competition among interested vendors, resulting in better value for the Federal Government. PBA is a method for structuring all aspects of an acquisition around the need and outcome desired as opposed to the method by which the work should be done. For example, a need is identified for janitorial services with the desired outcome of clean office spaces. However, the Federal Government does not detail how the janitorial work should be done. This type of procurement shifts much of the risk from the Federal Government to industry because contractors become responsible for achieving the objectives in the work statement using their own best practices. It also allows the Federal Government to focus its monitoring efforts on the desired outcome—rather than on how the contractor performs the work—resulting in significantly fewer contract administration resources.

The Federal Acquisition Regulation states that agency program officials are responsible for accurately describing the need to be filled or problem to be resolved through service contracting in a manner that ensures full understanding and responsive performance by contractors and, in so doing, should obtain assistance from contracting officials, as needed. The Federal Acquisition Regulation further states that to the maximum extent practicable, the program officials shall use PBA methods when describing the need to be filled.

In 2001, the Office of Management and Budget (OMB) issued a mandate specifically directing agencies to write performance-based methods on a specific percentage of the total eligible service contracting dollars worth more than \$25,000.

On September 7, 2004, the OMB issued another memorandum to Federal agencies requiring the application of PBA methods on 40 percent, as measured in dollars, of eligible service actions of more than \$25,000, including contracts, task orders, modifications, and options awarded in Fiscal Year (FY) 2005.

On July 21, 2006, the OMB issued an additional memorandum extending the 40 percent requirement to FY 2006. Further, the memorandum requested that agencies submit a PBA Management Plan by October 1, 2006. On May 22, 2007, the OMB stated in a memorandum that most agencies met or exceeded the FY 2006 goal, awarding more than 45 percent of their eligible service contracts as performance-based. The memorandum set a 45 percent goal for FY 2007.

In addition, on April 25, 2007, the OMB issued a memorandum, *The Federal Acquisition Certification for Program and Project Manager*, which established a structured development



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

program for project and program managers that includes modules for PBA. The program is required for project and program managers assigned to what are considered major acquisitions.

This audit was performed at the Office of Procurement (Procurement) in the Office of Agency-Wide Shared Services in Oxon Hill, Maryland, during the period March through November 2007. 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.



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

Results of Review

While the IRS has never achieved the recommended PBA usage levels, we determined that the procurements in which PBA was used were performed in accordance with guidelines. Our review of a judgmental sample of seven PBA contracts showed that the two primary processes of 1) acquiring services and 2) ensuring contract monitoring were performed in accordance with Federal Acquisition Regulation guidelines. Specifically, the performance requests sent to prospective contractors were prepared in accordance with the guidelines and generally used a statement of objectives prepared by the IRS. The contractors then prepared a performance work statement as part of their proposals.

The contractors also submitted adequate quality assurance plans¹ in conjunction with the solicitations, usually in the form of a matrix showing required services, performance measures, acceptable quality levels, monitoring, and methods. All of the Contracting Officers and Contracting Officer Technical Representatives² associated with these seven procurements had training in PBA use.

However, the IRS' overall PBA use was consistently low. We determined that there were several possible reasons for this, including a lack of knowledge, education, and experience within the business unit staff of how and when to use this type of procurement technique, a lack of vigorous planning, and insufficient time for Procurement to award the contract using PBA. As a result, the IRS has not achieved the desired usage rates and may not have made the best use of its resources when acquiring goods and services.

Efforts to Implement Performance-Based Acquisition Have Fallen Short of Federal Government Goals

The IRS has consistently missed OMB goals for PBA use. Figure 1 shows the IRS' actual performance for eligible service dollars according to its management plan as of October 1, 2006.

¹ In Federal Government contracting, Quality Assurance refers to the various functions, including inspection, performed to determine whether a contractor has fulfilled its contract obligations pertaining to quality and quantity.

² The Contracting Officer Technical Representative is responsible for monitoring the contract after award and has no role in determining the acquisition strategy.



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

Figure 1: Percentage Use of Performance-Based Acquisition

Fiscal Year	OMB Goal (Percentage)	IRS Actual (Percentage)
2001	10%	4.78%
2002	20%	12%
2003	30%	7.37%
2004	40%	18%
2005	40%	22%
2006	40%	13%

Source: October 1, 2006, PBA Management Plan.

In response to an OMB requirement, IRS senior Procurement executives submitted a PBA usage plan in October 2006. In the plan, they describe their outreach efforts to program offices (e.g., IRS business units) and the ongoing encouragement they provide to Office Directors and Branch Chiefs to use performance-based requirements to the maximum extent practicable. For years, IRS Procurement has emphasized the use of PBA to program officials through the advance acquisition planning process. In the most recent annual memorandum dated July 12, 2007, the Director, Procurement, reemphasized the need for the IRS to make greater use of the PBA methods in their statements of work and contracts for services. The memorandum notes that OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, makes it mandatory for Federal Government agencies to use performance-based work statements for information technology services contracts that support major investments. The memorandum further states that failure to use the PBA methods must be justified in the acquisition plan and will result in a poor evaluation of the acquisition strategy section of the Exhibit 300, Capital Asset Plan and Business Case Summary, when it is reviewed by management for funding. However, because Procurement developed and implemented the PBA usage plan, it only addressed the actions it planned to take to increase IRS use of PBA. There was no corresponding plan developed by the IRS business units.

The decision to use a performance-based approach to obtain services is a shared responsibility between Procurement and the business units. This decision has to be made upfront. Notwithstanding Procurement's efforts, we believe that top-level program office management participation is essential to ensure that the economic and program benefits of PBA are realized as directed by the Federal Acquisition Regulation, and to ensure that OMB goals are met. Program offices have the mission needs, fund the acquisitions, and most importantly have the primary responsibility for defining service requirements that meet these mission needs. Program offices have not yet adopted the view that they are responsible for identifying requirements that may be suited for PBA and for doing their part in meeting the goals for use. The OMB performance goal



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

is primarily assigned to Procurement. However, Procurement cannot determine the acquisition method and the schedule, including the contract type that can incorporate PBA methods, unless the program office has done its part before submitting the acquisition request. The program offices should be:

- Identifying requirements that may be suited for PBA and meeting with the contracting office and any other stakeholder.
- Developing the performance work statement or the statement of objectives, acceptable quality levels, and a plan to monitor performance.
- Obtaining training in PBA as a team to ensure that everyone understands the concepts and goals.
- Performing market research to identify sources that could provide what is needed and learn as much as possible about the industry's commercial practices.

The IRS has no comprehensive plan to meet OMB goals that emphasize the collective responsibility to plan, manage, and execute PBA with well-trained, cross-organizational teams comprised of representatives from budget, technical, contracting, logistics, and legal staff and with significant participation and contribution by program offices. Senior IRS executives can support these efforts by working to overcome resistance, organizing resources, and building commitment to new ways of doing business. Until business units are held accountable for identifying requirements that may be suited for PBA and for doing their part to embrace this acquisition strategy, the percentage usage goal set by the OMB and the economic and program benefits of PBA will not be achieved.

Recommendation

Recommendation 1: The Deputy Commissioner for Operations Support, with the support, assistance, and input from the Deputy Commissioner for Services and Enforcement, should ensure that program office management develops and implements a comprehensive plan to meet OMB goals for use of PBA methods. These methods should emphasize the collective responsibility to plan, manage, and execute PBA with cross-organizational teams and with significant participation and contribution by program offices. Further, if not already included, the insertion of PBA usage as a measure in individual performance standards may provide the necessary incentive to achieve PBA goals and advantages.

Management's Response: The IRS agreed with the recommendation. However, management believes inclusion of PBA usage in performance standards should be at the discretion of business unit managers. The Deputy Commissioner for Operations Support has signed a memorandum for distribution encouraging program office management to emphasize the importance of using PBA methodology to the maximum extent practicable and their collective responsibility in planning, managing, and executing PBA. The memorandum states both the OMB and the Department of the Treasury goals for PBA



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

and identifies a number of training opportunities recommended for program staff and Contracting Officer Technical Representatives. Among other initiatives, PBA will be identified as a High Priority Initiative requiring a detailed plan for improvement that identifies activities with scheduled start and completion dates, and is updated and reported to the Deputy Commissioner for Operations Support monthly.

Program Offices Lack Knowledge, Education, and Experience in the Use of Performance-Based Acquisition

To determine why the IRS did not use PBA more often, we selected a sample of 20 nonperformance-based acquisitions from a list provided by Procurement that may have been appropriate for PBA contracting. We interviewed the responsible Contracting Officer Technical Representatives and, at the program offices' request, other individuals involved with the contract to determine why the contracts were not requested to be performance based.

Of the 20 acquisitions reviewed, 2 did not appear to be suitable for PBA. This was because the contracts involved changes in tax laws that required specific corresponding changes in processing software. The contractors involved with these requirements worked closely with, and under the supervision of, IRS employees to accomplish the changes in the short time period available to them. In addition, we noted that two additional acquisitions on the list were in fact performance-based contracts and should not have been listed. We agree with Procurement that the remaining 16 acquisitions were suitable for PBA.

Based on our discussions, we determined that the primary reasons for not using PBA were a lack of knowledge, education, and experience in the use of this contract administration tool. For example, of the 20 Contracting Officer Technical Representatives interviewed, only one had formal training in PBA; however, this training was 3 years ago. In contrast, all of the Contracting Officers in Procurement that we interviewed for the 20 acquisitions had received PBA training. Although we did not interview other individuals in the business units who were involved in the upfront planning of these acquisitions (and who could have made the decision to use PBA methods), we believe the IRS is not training all the right people on how to do PBA. This may have occurred because OMB policy and the Federal Acquisition Regulation are based on contracting structures, so the Contracting Officers take the majority of the contracting training, including PBA. Yet, in the IRS, the business units, not the Contracting Officers, perform the job analysis and technical document development (e.g., performance work statement or statement of objectives, quality assurance plan). As a result, training only the Contracting Officers is not sufficient to increase the use of PBA.

Training is a critical tool in successfully implementing change. To deliver training effectively, the IRS must prioritize acquisition initiatives that are most important to it, identify those needing training and set requirements, and ensure that its training reaches the right people. Unless IRS management sets PBA training as a high priority and defines those employees who would be



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

targeted for training (e.g., those who are involved in the upfront planning for major service acquisitions), the IRS will continue not to realize the benefits of this unique, innovative, and cost-effective way of managing contracts. We believe Procurement could assist the business units in identifying the individuals who should receive this training first.

Recommendations

Recommendation 2: The Deputy Commissioner for Operations Support, with the support, assistance, and input from the Deputy Commissioner for Services and Enforcement, should ensure that program personnel with the authority to select the acquisition strategy appropriate for the procurement and those involved in writing contract requirements be trained in performance-based methods. In addition, program personnel should consult with trained Procurement officials when deciding which type of procurement vehicle to choose to ensure that contract requirements are compatible with PBA.

Management's Response: The IRS agreed with the recommendation. A memorandum for distribution has been issued by the Deputy Commissioner for Operations Support and identifies several training opportunities and urges program personnel and Contracting Officer Technical Representatives to become familiar with the "Seven Steps to Performance Based Acquisition" guide and to enroll in a PBA course. In response to a Memorandum for Bureau Chief Procurement Officers issued by the Department of the Treasury's Senior Procurement Executive, Office of the Procurement Executive, the Director, Procurement, has mandated that all contracting 1102 series employees are required to complete a PBA training course.

Procurement will continue to provide training opportunities for program office personnel through the Treasury Acquisition Institute but cannot require attendance at those courses. Individual managers make the determination based on employees' work assignments and developmental needs.

The Advance Acquisition Planning Council will continue to emphasize and discuss development of PBA work statements with project managers in Advance Acquisition Planning Meetings for requirements supporting major and nonmajor investments. The Advance Acquisition Planning Council works with the customer (e.g., project officers, program managers, Contracting Officer Technical Representatives) and the responsible procuring office Contract Specialist/Contracting Officer to develop a high-level acquisition strategy that includes determining procurement methodology such as PBA.

Recommendation 3: The Director, Procurement, should continue to advocate and educate program personnel on the benefits of PBA and identify the program personnel who should receive the training first.



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

Management's Response: The IRS agreed with the recommendation. Procurement has generated an action-forcing event memorandum that emphasizes the requirement for all program officials to use PBA strategies to the maximum extent practicable and the many opportunities offered by Procurement to learn about PBA. As a result, the Office of Procurement Policy has revised its policy and procedures to include a new requirement for an acquisition-planning meeting with the Director, Procurement, for any contract action, other than firm-fixed price, that exceeds \$10 million. Procurement is currently assessing the training needs of individual program personnel for enrollment in the team-based PBA training that the Department of the Treasury is offering.



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the IRS is effectively managing its use of PBA from the preparation of performance work statements or statements of objectives through surveillance of service quality and performance. To accomplish this objective, we:

- I. Determined the criteria used by the IRS to select procurements suitable for PBA.
 - A. Reviewed policies and procedures related to awarding PBA, including IRS policies, OMB guidelines, and Office of Federal Procurement Policy issuances.
 - B. Interviewed IRS Senior Procurement management and other Procurement personnel to discuss their concerns and what contracts, if any, they recommended for review.
 - C. Selected a judgmental sample of 7 performance-based service acquisitions awarded in FYs 2005 and 2006 from 283 open acquisitions. We used a judgmental sample to ensure that the most significant PBA contracts were selected.
 - D. Interviewed Contracting Officers and Contracting Officer's Technical Representatives involved with the contracts in our sample to obtain an understanding of their responsibilities.
- II. Determined the extent to which the IRS uses PBA as required by OMB guidelines.
 - A. Confirmed that the acquisitions in the judgmental sample in Step I.C. met the criteria for performance-based acquisition.
 - B. Verified the accuracy of the IRS' October 1, 2006, PBA Management Plan, which reported achievement levels of 22 percent and 13 percent, respectively, for FYs 2005 and 2006.
 - C. Through reviews of selected contract files and discussions with responsible IRS officials, determined why the IRS did not meet OMB achievement levels of 40 percent for FYs 2005 and 2006. We accomplished this through a judgmental sample of 20 acquisitions identified by Procurement as being eligible for a performance-based acquisition, though they were not.

This audit did not include audit procedures to obtain evidence that computer-processed data, which were the basis for our 2 judgmental samples (7 and 20), were valid and reliable. Though used during this audit, the data in general were not considered significant to the audit's objective or resultant findings. We only used the data to reasonably verify the universe from which we selected our samples for



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

- substantive testing. We only concluded and reported on those substantive tests. Therefore, there was no adverse effect on the audit as a result of not including the reliability of computer-processed data audit procedures.
- III. Determined whether the IRS prepared complete, accurate, and timely performance work statements or statements of objectives for PBA contracts.
- A. For performance work statements, verified whether the statements were written as a description of required results rather than a description of how the results are to be attained.
 - B. Verified whether the statements contained language to enable an assessment of work performance against measurable performance standards.
 - C. Verified whether the statements used measurable performance standards and financial incentives in a competitive environment to encourage competitors to develop and institute innovative and cost-effective methods of performing the requested work.
 - D. For statements of objectives, verified whether the objectives described the full size and range of the services required.
 - E. Verified whether the objectives included measurable, mission-related objectives.
 - F. Verified whether the objectives identified any constraints related to the services required.
- IV. Determined whether the IRS effectively prepared quality assurance surveillance plans and used them to evaluate contractor quality, performance, and conformity with the terms of the contracts and requirements of the Federal Acquisition Regulation.
- A. Identified the work that required surveillance.
 - B. Verified whether the quality assurance surveillance plan was complete.
 - C. Verified whether the quality assurance surveillance plan addressed both the contractor's role in quality control and the Federal Government's role in quality assurance.
 - D. Identified the methods of surveillance used (e.g., sampling, periodic inspection, customer feedback, observation).
 - E. Analyzed the sufficiency of documented surveillance schedules, checklists, and reports.
 - F. Verified whether appropriate actions were taken to resolve incomplete or unacceptable work identified using the quality assurance surveillance plan.



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
Alicia P. Mrozowski, Director
Thomas J. Brunetto, Audit Manager
Robert W. Beel, Lead Auditor
Chinita Coates, Auditor
Rashme Sawhney, Auditor



*Due to the Lack of Experienced Users, the Benefits of
Performance-Based Acquisition Are Not Being Fully Realized*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Acting Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Chief, Agency-Wide Shared Services OS:A
Chief Information Officer OS:CIO
Director, 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:F
 Modernization and Information Technology Services B:TAM
 Director, Procurement OS:A:P



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

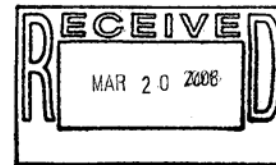
Appendix IV

Management's Response to the Draft Report



CHIEF
AGENCY-WIDE
SHARED SERVICES

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



March 20, 2008

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

From: James P. Falcone *James P. Falcone*
Chief, Agency-Wide Shared Services

Subject: Draft Audit Report – Due to the Lack of Experienced Users,
The Benefits of Performance-Based Acquisition (PBA) Are Not
Being Fully Realized (Audit # 200710005) (I-trak #2008-33737)

Thank you for the opportunity to respond to the subject audit report. The audit was conducted to determine whether we are effectively managing performance-based acquisition (PBA) practices. Our response, including closure of two of the three recommendations, is attached.

The audit reviewed seven contracts that utilize PBA methods and were found to be in accordance with established guidelines. However, the overall use of PBA is well below the goals established by the Office of Management and Budget (OMB). The report cites lack of internal expertise within program offices on how to implement PBA, lack of adequate planning, and an inability by program managers to define requirements, as some of the contributing factors to the under-utilization of PBA.

We agree that to successfully achieve PBA goals, Procurement and program offices must share a collective responsibility to plan, manage, and execute PBA actions. Our procurement staff has taken the lead in working with customers to provide information, training opportunities, assistance in identifying requirements suitable for PBA and implementing PBA acquisition strategies. We recognize that without a comprehensive plan and significant participation by program offices, OMB goals and PBA economic and program benefits will not be achieved. As such, it is important that we engage the right business decisions when selecting acquisition strategies. Including PBA usage in individual performance standards to drive participation by program staffs could jeopardize the decision making process.



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

2

On March 7, 2008, the Deputy Commissioner, Operations Support (DCOS), issued a Memorandum to all Business Unit executives, calling for their support to achieve PBA goals. This communication addressed Treasury's PBA goals for FY 2008 through FY 2011 and emphasized the advantages of engaging PBA acquisition strategies. Training sources were also identified in which program personnel and Contracting Officers' Technical Representatives (COTRs) were urged to enroll.

We appreciate your continued support and the valuable assistance and guidance that your team provides. If you have any questions, please contact me or a member of your staff may contact Tim Shaughnessy, Director, Office of Procurement Policy, at (202) 283-1310.

Attachment



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

1

Management response to Draft Audit Report – Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized (Audit #200710005) (I-trak #2008-33737)

RECOMMENDATION #1: The Deputy Commissioner for Operations Support, with the support, assistance, and input from the Deputy Commissioner for Services and Enforcement, should ensure management of program offices develops and implements a comprehensive plan to meet OMB goals for use of PBA methods. These methods should emphasize the collective responsibility to plan, manage, and execute PBA with cross-organizational teams and with significant participation and contribution by program offices. Further, if not already included, the insertion of PBA usage as a measure in individual performance standards may provide the necessary incentive to achieve PBA goals and advantages.

CORRECTIVE ACTION TO RECOMMENDATION: We agree with this recommendation; however, inclusion of PBA usage in performance standards will be left to the discretion of business unit managers. The Deputy Commissioner for Operations Support (DCOS) has signed a Memorandum for Distribution encouraging management of program offices to emphasize the importance of utilizing PBA methodology, to the maximum extent practicable, and the collective responsibility in planning, managing and executing PBA. The memo states both the OMB and Treasury goals for PBA and identifies a number of training opportunities recommended for program staff and COTRs.

The Office of Procurement will work with the DCOS to further promote PBA by implementing the following initiatives:

- Identify PBA as a High Priority Initiative (HPI) requiring a detailed plan for improvement which identifies activities with scheduled start and completion dates. HPIs are updated and reported to the DCOS monthly,
- Develop PBA corporate measures for AWSS and Procurement, and
- Provide additional PBA training courses through the Treasury Acquisition Institute (TAI).

The Office of Procurement will continue outreach activities:

- The Acquisition Planning Conference, scheduled for March 25-27, 2008, will include a session on Writing a Statement of Work Using Performance Requirements, as well as a session on the Six Disciplines of Performance-Based Project Management;
- The Advance Acquisition Planning Advocate (AAPA) will disseminate OMB and Treasury PBA goals, track performance against these goals, and identify and publicize training opportunities;



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

2

Management response to Draft Audit Report – Due to the Lack of Experienced Users, the Benefits of Performance-Bases Acquisition Are Not Being Fully Realized (Audit #200710005) (I-trak #2008-33737)

- The Advance Acquisition Planning Council (AAPC) will continue to emphasize and discuss development of PBA work statements with project managers in Advance Acquisition Planning Meetings for requirements supporting major and non-major investments. The AAPC was established in FY 2002 to improve acquisition planning and communication between Procurement, the program managers and budget offices.

The Office of Strategic Acquisition Initiatives (SAI) within Procurement chairs the AAPC. Ad hoc members are invited to participate in AAPC meetings when they are responsible for processing planned requirements or have a significant role in the planning of the requirement. During Council meetings, acquisition strategies for ongoing and future procurements are discussed. Also discussed is the importance of making these requirements performance-based. The Director, Procurement issues an annual call for submission of advance acquisition planning (AAP) information. The call to begin the AAP process is sent to the business units in the third quarter of each fiscal year. Business units forecast two fiscal years of planned requirements. The ad hoc and standing members of the Council discuss each planned requirement over the simplified acquisition threshold. The AAPC works with the customer (project officers, program managers, COTRs, etc.) and the responsible procuring office contract specialist / contracting officer to develop a high level acquisition strategy, which includes determining procurement methodology, such as PBA.

In addition, as soon as the IRS executive steering committee approves a major investment for business case planning, the project manager contacts the Procurement AAP Advocate who identifies the key Procurement stakeholders to participate in acquisition strategy meetings with the project team. The AAP Advocate is contacted as soon as a major investment proposal is approved by IRS executives. The PBA requirement is emphasized at this early stage of the planning process.

Since PBA is a methodology and not a contract type, the planning process is not measurably different, other than emphasizing the use of PBA. When the acquisition plan states that PBA is impractical, the Contracting Officer, with input from the program offices, has to provide a determination and finding with sufficient rationale explaining why PBA is impractical. Treasury's Senior Procurement Executive is required to approve determinations, at a certain dollar threshold, if acquisitions do not include PBA methods.

IMPLEMENTATION DATE: October 15, 2008

RESPONSIBLE OFFICIAL: Director, Procurement OS:A:P



*Due to the Lack of Experienced Users, the Benefits of
Performance-Based Acquisition Are Not Being Fully Realized*

3

Management response to Draft Audit Report – Due to the Lack of Experienced Users, the Benefits of Performance-Bases Acquisition Are Not Being Fully Realized (Audit #200710005) (I-trak #2008-33737)

CORRECTIVE ACTION MONITORING PLAN: PBA statistics will be monitored and measured against established goals. Status will be reported to the Chief, AWSS, Procurement managers and the DCOS. Feedback from the Acquisition Planning Conference will be reviewed and considered for further improvements.



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

4

Management response to Draft Audit Report – Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized (Audit #200710005) (I-trak #2008-33737)

RECOMMENDATION # 2: The Deputy Commissioner for Operations Support, with the support, assistance, and input from the Deputy Commissioner for Services and Enforcement, should ensure program personnel with the authority to select the acquisition strategy appropriate for the procurement and those involved in writing contract requirements be trained in performance-based methods. In addition, program personnel should consult with trained Procurement officials when deciding which type of procurement vehicle to choose to ensure contract requirements are compatible with PBA.

CORRECTIVE ACTION TO RECOMMENDATION: We agree with this recommendation. A memorandum for distribution has been issued by the DCOS and identifies several training opportunities and urges program personnel and COTRs to become familiar with the “Seven Steps to Performance Based Acquisition” guide and to enroll in a PBA course. In response to a Memorandum for Bureau Chief Procurement Officers issued by the Department of the Treasury’s Senior Procurement Executive, Office of the Procurement Executive, the Director, Procurement, has mandated that all contracting 1102 series employees are required to complete a PBA training course.

In Fiscal Year (FY) 2007, TAI offered the following performance based courses for procurement and program personnel in other IRS organizations.

- Seven Steps to Performance-Based Acquisition (4 class offerings);
- Six Disciplines of Performance-Based Management (4 class offerings) and
- Contracting for COTRs.(17 class offerings);

Procurement will continue to provide training opportunities for other IRS personnel through the TAI, but cannot require attendance at those courses. Individual managers make the determination based on employees’ work assignments and developmental needs. In FY 2008, the TAI is offering the following performance-based courses for procurement and program personnel in other IRS organizations:

- Performance-Based Acquisition: Preparing Statements of Work (2 class offerings);
- Seven Steps to Performance-Based Acquisition (2 class offerings);
- Six Disciplines of Performance-Based Management (2 class offerings) and
- Contracting for COTRs (17 class offerings)

The Federal Acquisition Institute (FAI) also offers a free PBA workshop and an on-line course is offered through the Defense Acquisition University (DAU).



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

5

Management response to Draft Audit Report – Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized (Audit #200710005) (I-trak #2008-33737)

In addition to the courses, the IRS continues to offer the following training and improvement opportunities:

- One-on-one contact/discussions with procurement branches and customers;
- Advance Acquisition Planning Conference focused on performance-based acquisition concepts;
- Advance Acquisition Planning Council;
- Business Case Planning for Major Investments Supported by Contracts
- Statement of Work Writer's Guide on the IRS Intranet;
- PBA ad hoc training available for teams; and
- SkillsSoft On-Line Training for PBA.

The Advance Acquisition Planning Council (AAPC) will continue to emphasize and discuss development of PBA work statements with project managers in Advance Acquisition Planning Meetings for requirements supporting major and non-major investments. The AAPC works with the customer (project officers, program managers, COTRs, etc.) and the responsible procuring office contract specialist / contracting officer to develop a high level acquisition strategy, which includes determining procurement methodology, such as PBA.

In addition, as soon as the IRS executive steering committee approves a major investment for business case planning, the project manager contacts the Procurement AAP Advocate who identifies the key Procurement stakeholders to participate in acquisition strategy meetings with the project team. The AAP Advocate is contacted as soon as a major investment proposal is approved by IRS executives. The PBA requirement is emphasized at this early stage of the planning process.

IMPLEMENTATION DATE: Completed March 11, 2008. These are ongoing activities.

RESPONSIBLE OFFICIAL: Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN: N/A



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

6

Management response to Draft Audit Report – Due to the Lack of Experienced Users, the Benefits of Performance-Bases Acquisition Are Not Being Fully Realized (Audit #200710005) (I-trak #2008-33737)

RECOMMENDATION # 3: The Director, Office of Procurement, should continue to advocate and educate program personnel on the benefits of performance-based methods and identify the program personnel who should receive the training first.

CORRECTIVE ACTION TO RECOMMENDATION: We agree with this recommendation. The Office of Procurement has generated an action forcing event memo for the Deputy Commissioner for Operations Support's signature. The memorandum emphasizes the requirement for all program officials to use PBA strategies to the maximum extent practicable when developing requirements for services. The memorandum also emphasizes the many opportunities offered by the Office of Procurement to learn about PBA, including Treasury Acquisition Institute training, one-to-one training, meetings with Procurement managers and sessions at the annual Advance Acquisition Planning Conference. The memorandum re-emphasized the importance of contract type. Selecting the appropriate contract type will improve outcomes and improved outcomes will assist in reaching PBA goals. As a result, the Office of Procurement Policy has revised Policy and Procedures Memorandum No. 4.1(B), Procurement Reviews, to include a new requirement for an acquisition planning meeting with the Director, Procurement for any contract action, other than firm-fixed price, that exceeds \$10 million. The Office of Procurement is currently assessing the training needs of individual program personnel for enrollment in the team-based PBA training that Treasury is offering.



Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized

7

Management response to Draft Audit Report – Due to the Lack of Experienced Users, the Benefits of Performance-Bases Acquisition Are Not Being Fully Realized (Audit #200710005) (I-trak #2008-33737)

The Office of Strategic Acquisition Initiatives (SAI) within the Office of Procurement serves as business adviser and reviewer, in coordination with Procurement Operating Divisions, of the acquisition strategy section of OMB Exhibit 300 (E-300) business cases for major investments. Most investments are supported by planned requirements and ongoing contracts. An IRS major investment is one that is estimated to exceed \$5 million a year or \$50 million life cycle or \$500,000 a year for a financial system. The major investment value includes government and contractor costs. Beginning with IRS FY 2009 E-300 business cases which were submitted to OMB in September 2007, each must have an investment level acquisition strategy plan (ASP) and an acquisition plan (AP) for each contract supporting the investment. The ASP and associated APs are provided to OMB as part of the business case submission. An ASP template was developed for use by IRS project managers. The ASP template has an acquisition strategy section that addresses government-wide initiatives, including use of performance-based work statements. Major investments must address plans to use performance-based work statements in the ASP and include the details in the AP. The project must discuss what is being done to transition to performance-based work statements or provide an acceptable justification for not transitioning to performance-based work. There is also a resources section in the ASP that addresses training needs for the Integrated Acquisition Team (IAT). As part of the SAI review, the ASP training section is edited to require training in performance-based acquisitions and earned value management for the IAT. The project teams have started submitting the training requests to take classroom training.

The Office of Procurement's FY 2008 Acquisition Planning Conference has been planned for March 25-27, 2008. The agenda includes breakout sessions that will assist users in developing performance-based work statements and monitoring the contract after award. Each session is 90 minutes and will be presented by Acquisition Solutions, Inc. and IRS Procurement Subject Matter Experts:

- Writing a Statement of Work and Using Performance Requirements;
- Six Disciplines of Performance-Based Project Management;
- Earned Value Management and
- Contract Types and Available Contracts

IMPLEMENTATION DATE: March 15, 2008. These are ongoing activities.

RESPONSIBLE OFFICIAL: Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN: N/A