



Treasury Inspector General for Tax Administration

THE MODERNIZATION AND INFORMATION TECHNOLOGY SERVICES ORGANIZATION'S COMPETITIVE SOURCING PROGRAM NEEDS IMPROVEMENT

Issued on January 16, 2008

Highlights

Highlights of Report Number: 2008-20-028 to the Internal Revenue Service Chief Information Officer.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) implemented a redesigned Campus Operations organization (a competitive sourcing initiative) as a result of winning a competition with private industry for its work. However, the redesigned Campus Operations organization is not fully complying with operational performance standards, and actual costs and savings are not being determined and reported. As a result, the IRS cannot assure taxpayers that the redesigned Campus Operations organization efficiently uses resources and fully achieves the expected benefits and savings from the competition of its work.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine the effectiveness and efficiency of the Modernization and Information Technology Services (MITS) organization in supporting the competitive sourcing program and whether the competitive sourcing initiatives yielded positive and measurable results.

The Competitive Sourcing Initiative is one of the five Governmentwide initiatives in the President's Management Agenda for improving the management and performance of the Federal Government. The goal of this Initiative is to achieve efficient and effective competition between public and private sources. Office of Management and Budget Circular Number A-76, *Performance of Commercial Activities*, requires agencies to identify commercial activities that are performed by Federal Government personnel and determine which of them are suitable for competition. On October 1, 2005, the IRS implemented a redesigned Campus Operations organization as a result of winning a competition with private industry for its work.

WHAT TIGTA FOUND

The identification and reporting of costs and savings from the redesigned Campus Operations Program

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needs improvement. For example, the estimated and actual financial savings and nonfinancial benefits reported externally were not supported by documentation, and the MITS organization was unaware of the financial savings that were reported. Also, estimated and actual costs were not consistently reported. As a result, the IRS cannot accurately compute cost savings/overruns and other benefits and effectively evaluate compliance with the Letter of Obligation.

Also, the redesigned Campus Operations organization has not met the operational performance standards and has exceeded the budget in the Letter of Obligation. Our review of management reports determined the number of errors made by employees had generally declined, but the rate of noncompliance with operational performance standards showed minimal improvement. Also, review of the actual costs determined the redesigned Campus Operations organization exceeded the estimated costs for Fiscal Year 2006 by \$607,587 (11 percent). As a result of continuing to print more than 300 additional files not included in the original estimates, future fiscal year costs might exceed the estimated costs in the Letter of Obligation.

WHAT TIGTA RECOMMENDED

The Chief Information Officer should ensure all MITS organizations consistently identify the actual costs, determine the source for the estimated costs, and assure consistent data pull for external reporting purposes; assign responsibility for comparing actual costs to the baseline, the Standard Competition Form, and the Letter of Obligation; and ensure the MITS organization reviews the savings and benefits for accuracy and concurs with the information to be reported externally. The Chief Information Office should also provide additional training for employees with unsatisfactory performance and/or take appropriate personnel actions; continue to work with the business units to reduce the number of files printed and obtain agreement on a schedule for converting the remaining print files to electronic files for online viewing; determine what actions should be taken if the performance standards continue to be unmet and/or the actual costs continue to exceed the estimated costs; and ensure future Most Efficient Organization proposals meet the IRS business units' requirements.

In their response to the report, IRS officials agreed with the recommendations and plan to take appropriate corrective actions.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2008reports/200820028fr.pdf>.

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