Improvements Are Needed in Planning for the Acquisition of Goods and Services and in Managing Contract Closeouts

March 2000

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INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 10, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

Pamela J Gardiner

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Improvements Are Needed in Planning for the Acquisition of Goods and Services and in Managing Contract Closeouts

This report presents the results of our review of pre- and post-award practices to determine whether the Internal Revenue Service (IRS) is effectively and efficiently planning for and administering contracts. In summary, we identified that approximately $2 million of government funds were unnecessarily expended or placed at risk because of inadequate planning by program offices or because excess funds were not deobligated.

We believe that the Director of Procurement should advise program offices to properly prepare acquisition plans and funding documents before contracting actions are taken and ensure all Procurement personnel properly update closeout and completion information. Both the Procurement function and program offices should ensure that sufficient quantities are ordered to satisfy guaranteed minimums, and that minimums are not set too high. Also, additional oversight of outstanding obligations is needed to ensure funds are properly expended or timely deobligated and that contracts are properly closed out and excess funds timely deobligated.

In commenting on a draft of this report, IRS management concurred with our findings and agreed to take corrective action on most of our recommendations. IRS management believes our recommendations to require the preparation of acquisition plans prior to the issuance of a solicitation and to advise program offices to provide timely requisitions are unnecessary because the appropriate mechanisms are already in place. However, in our opinion, the presence of a requirement does not ensure its proper or timely implementation. Accordingly, the IRS needs to better ensure compliance with its requirements. Toward this end, IRS management plans to place all available policy guidance on the IRS procurement Intranet site to allow broader access to IRS personnel. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at 202-622-8500.

Table of Contents

Executive Summary

The Internal Revenue Service's (IRS) Procurement function implemented the Integrated Procurement System (IPS) in Fiscal Year 1998. The IPS is an on-line processing system that, according to Procurement management, has helped improve contract administration by expediting the procurement process. The overall objective of this review was to determine whether the IRS is effectively and efficiently planning for and administering contracts.

Results

Although the IPS has enhanced contract administration and contracting officer's technical representatives are ensuring goods and services comply with the contracts, IRS can further improve the planning for and administration of contracts. We identified approximately $2 million of government funds that were unnecessarily expended or placed at risk because of inadequate planning by program offices or because excess funds were not deobligated.[1]

Funds Are Being Placed at Risk Due to Inadequate Planning and Oversight by Program Offices

Program offices have not adequately planned for the acquisition of goods and services and, as a result, approximately $1.6 million of government funds have either been unnecessarily expended or placed at risk. We determined guaranteed minimums proposed for contracts were being set too high. In one instance, because the IRS did not request services from the contractors, the guaranteed minimums of $123,000 were paid, and the IRS did not receive any goods or services in exchange for these payments.

We also identified concerns with program offices' oversight of funding for contracts. In two instances, requisitions were not timely submitted to add funds to existing contracts to extend the time period of the contract, which could have caused the IRS to incur liabilities in excess of existing funds.

Additionally, we determined that one program office had not timely expended obligated funds. The funds either needed to be properly expended or timely deobligated during the corresponding fiscal year to allow the monies to be used for other endeavors.

[1] Process where funds are no longer earmarked for payments under a specific contract.

Procurement Management Needs to Ensure That Contracts Are Timely Closed Out and Funds Deobligated on Completed Contracts

Procurement management is not able to adequately manage the closeouts of contracts due to inconsistencies with the automated systems used to monitor contracts. We sampled 40 inactive contracts and determined 30 contracts had not been timely closed out. The remaining 10 contracts were closed, but had not been properly reflected as closed on the IPS. As a result, we identified approximately $352,000 of funds from completed contracts that should be deobligated.

Summary of Recommendations

The Director of Procurement should advise program offices to properly prepare acquisition plans and funding documents before contracting actions are taken. Both the Procurement function and program offices should ensure that sufficient quantities are ordered to satisfy guaranteed minimums, and that minimums are not set too high. Also, continual monitoring of outstanding obligations is needed to ensure funds are properly expended or timely deobligated. Additionally, the Director of Procurement should ensure all Procurement personnel properly update closeout and completion information on the IPS. Lastly, additional oversight is needed to ensure contracts are properly closed out and excess funds are timely deobligated.

<u>Management's Response:</u> Procurement management believes the IRS' existing policy and procedures regarding acquisition plans and funding documents are adequate. Management specifically stated that guidelines requiring the completion of acquisition plans prior to the issuance of a solicitation already exist; therefore, no further action is necessary. However, Procurement management has agreed to make all policy guidance available on the IRS Procurement Intranet site to allow broader access to policy guidance by all IRS personnel. In addition, Procurement management believes appropriate mechanisms are in place regarding the processing of requisitions and no further action is necessary.

Although Procurement management believes the program offices must ultimately decide their program needs, they agreed with our recommendation that Procurement personnel should review guaranteed minimum levels and monitor the pace of ordering. In addition, Procurement management will issue guidance reminding contracting personnel of their responsibilities to update the IPS. Lastly, Procurement management agreed that improvement is needed in the closeout of IRS contracts. Procurement management plans to significantly reduce the number of overage and current closeouts by the end of Fiscal Year 2000. This commitment will be included in Managers' Performance Agreements.

Office of Audit Comment: The Federal Acquisition Regulations, the Department of Treasury Acquisition Regulations, and IRS Procurement Policy and Procedures Memorandum 7.1 all require completion of acquisition plans prior to the issuance of a solicitation. At the time of our review the acquisition plans were not prepared before the issuance of the solicitation. Although guidance is available, we believe Procurement management should not continue with the acquisition process until the plan is properly completed. Procurement management's plan to allow broader access to the policy guidance on the Intranet may help facilitate the preparation process.

Although guidance is in place to encourage the program offices to timely submit requisitions, we believe the contracting officer is ultimately responsible for ensuring that funds are available prior to signing award documents. Requisitions provide the assurance that adequate funds will be available. While we agree the contracting officers acted in the best interest of the government by allowing the contractors to continue to work, the requisitions were not submitted until after costs had accumulated on the contract.

Objective and Scope

The overall objective of this review is to evaluate whether the IRS is effectively and efficiently planning for and administering contracts.

The overall objective of this review was to determine whether the Internal Revenue Service (IRS) is effectively and efficiently planning for and administering contracts. The audit work was performed from March to September 1999 at IRS Procurement offices and program offices in the Washington, D.C. area. We selected a judgmental sample of 20 active contracts in the post-award phase and 7 solicitations in the pre-award phase for the review. This audit was performed in accordance with *Government Auditing Standards.*

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

The contracting process begins with the program office's identification of a need. The program office works with the Procurement function to prepare a statement of work (SOW) that defines the work that the contractor is required to perform. If the SOW contains ambiguities or is not clear, the IRS may not receive the needed goods or services. Based upon the SOW, various contractors prepare and submit bids to perform the work. After the technical evaluation[1] and the price reasonableness determination[2] are completed, a contract is awarded and the contracting process moves into the contract administration phase. During contract administration, the contracting officer's technical

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[1] Process where a team of knowledgeable individuals assesses the contractor's ability to perform the work under a prospective contract.

[2] Process where the contracting officer verifies that a fair and reasonable price is offered.

representative (COTR) reviews and approves invoices and assists the contracting officer (CO) to ensure that the contractor performs the work as indicated in the contract. The CO and COTR also determine when excess funds will not be expended and can be deobligated.[3]

To automate the procurement process, the Integrated Procurement System (IPS) was implemented in Fiscal Year (FY) 1998. The goal of the IPS is to automate contract administration by interfacing with the IRS' Automated Financial System (AFS). The IPS helps the COs determine how much has been expended on each contract and task order, thereby identifying excess funds that should be deobligated. Additionally, the system is designed to improve the processing of modifications and requisitions by allowing on-line processing of the documents. Because of the on-line processing, Procurement personnel are able to check the status of procurement actions, such as determining whether a deliverable was accepted partially or in full.

Results

Additional emphasis is needed to further improve contract administration and ensure government funds are protected.

The Procurement function is responsible for administering a $1.7 billion program. The implementation of the IPS has enhanced the contract administration of this program. Requisitions are being forwarded electronically to the Procurement function and contractual documents are being created in the IPS. The IPS has also provided additional tools to help oversee the contracting process. Procurement management believes this on-line processing has helped expedite the procurement process.

Also, we confirmed that COTRs are ensuring that goods and services comply with the terms and conditions of the contract. In several instances, we determined that

[3] Process where funds are no longer earmarked for payments under a specific contract.

COTRs were adjusting invoices that contained items that did not comply with the contract.

Approximately $1.6 million of government funds have either been unnecessarily expended or placed at risk because of inadequate acquisition planning by program offices.

Although improvements have been made in acquiring goods and services, further contract oversight is needed to adequately protect government resources. In particular, we believe program offices are not adequately planning for the acquisition of goods and services. Approximately $1.6 million of government funds have either been unnecessarily expended or placed at risk because of inadequate acquisition planning by program offices. Furthermore, in two instances, inadequate planning could have caused COs to make liabilities in excess of existing funds.

We identified $352,000 remaining on completed contracts that could be deobligated.

Although the IPS has helped improve the processing of contracts, we believe that Procurement managers cannot rely upon the information in the IPS to effectively manage contract closeouts because the information is not properly updated. As a result, management cannot ensure completed contracts are properly closed out and excess funds timely deobligated. Our review of the completed contracts identified $352,000 that could have been deobligated.

Additional emphasis is needed to further improve contract administration and ensure government funds are protected. Specifically, funds are being placed at risk due to inadequate planning and oversight by program offices, and Procurement management needs to ensure contracts are timely closed out and funds deobligated.

Funds Are Being Placed at Risk Due to Inadequate Planning and Oversight by Program Offices

The IRS program offices have not adequately planned for the acquisition of goods and services. We identified several instances both before and after contract award where the program offices placed government resources at risk by not effectively planning for or overseeing the acquisition.

Program Offices Need to Better Plan for Acquisitions Before Contracts Are Awarded

We reviewed seven solicitation files and identified three instances where acquisition plans had not been completed prior to issuance of a solicitation. Acquisition plans help program offices protect government resources by ensuring the needs, costs, risks, and plans of action are addressed prior to acquisition of the goods and services.

One program office underestimated the funds needed for its solicitation.

One program office underestimated the funds needed for its solicitation because the estimate was based on outdated information. The Request for Information (RFI) had been issued almost two years prior to issuance of the solicitation and the responses to the RFI were used to estimate the funding for the contract. By relying on outdated data, the program office underestimated the funding needed for the contract and had to request additional funds of $157,000. Program offices need to ensure they use accurate data when preparing requisitions to prevent similar occurrences in the future.

In another instance we believe the guaranteed minimums proposed for a contract were too high, which could result in expending funds for which no work was performed. The guaranteed minimum amounts were calculated prior to the solicitation being issued and were based on the estimated total of the task area divided by the number of contractors expected to be awarded each task area. However, the program office did not account for the fact that if more contractors than anticipated were awarded a task area, then the total of the guaranteed minimums to be paid to contractors would also increase. The higher the total of guaranteed minimums, the greater the risk of the IRS not ordering sufficient goods or services to meet the minimums.[4]

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[4] After our initial inquiry, the Procurement function lowered the guaranteed minimum from $5.3 million to $3 million.

Finally, another program office did not fully identify its needs prior to the acquisition and may have ordered more items than necessary. A business case was not completed prior to acquiring software packages. The program office acquired a perpetual license for 100 software packages and, at the time of our review, had used only 2. Program offices need to fully identify their needs to ensure Procurement personnel obtain the appropriate goods and services to meet these requirements. Otherwise, funds are at risk of being expended for goods and services that do not satisfy the requirements.

We believe better planning by the program offices could prevent these funds from being placed at risk. To facilitate adequate planning, the Federal Acquisition Regulations (FAR)[5] and the Procurement function's guidelines require the CO, in conjunction with the program office, to prepare acquisition plans. According to Procurement guidelines, acquisition plans should be developed prior to issuance of a solicitation.

As previously mentioned, for three of the seven files we reviewed, an acquisition plan either had not been completed prior to issuance of a solicitation or was not in the file. We believe improved acquisition planning helps program offices protect government resources by ensuring that the needs, costs, risks, and plans of action are addressed prior to acquisition of the goods and services.

Program Offices Need to Provide Better Oversight After Contract Award

We reviewed 20 contracts that had been awarded and identified 5 instances where improvements were needed in monitoring the contract. These improvements included guaranteed minimums, contract funding, and program office oversight.

[5] GENERAL SERVS. ADMIN. ET AL., FEDERAL ACQUISITION REG. ("FAR"), 48 C.F.R. parts 1-52 (1997).

The Procurement function awarded a multiple award Indefinite Delivery Indefinite Quantity (IDIQ) contract to meet the IRS' need for services. The contract period was for a base year with four option years. Under a multiple award IDIQ contract, several contractors are awarded the contract, and according to regulations, the contract shall require the government to order at least a stated minimum quantity of supplies or services. This stated minimum quantity is called a guaranteed minimum. Guaranteed minimums were stipulated in the contract for the base year.

The IRS unnecessarily expended $123,000 to satisfy guaranteed minimum quantity requirements.

The IRS unnecessarily expended $123,000 to satisfy the guaranteed minimum quantity requirements specified in this contract. Because the IRS did not request services from the contractors, the guaranteed minimums were paid, and the IRS did not receive any goods or services in exchange for these payments. This issue was previously reported in an audit memorandum, and the Director, Program Integration (formerly Corporate Education) responded that an Acquisition Team would be established to review and provide oversight for all contracting activities (see Appendices V and VI).

The IRS obligated $194,000 for which no work has been requested.

In another instance, the program office had not timely expended obligated funds. The program office issued a task order against a contract, which obligated $194,000 of government funds. The program office obligated these funds with the expectation of issuing individual work requests to expend the funds once the requirements were defined. The contracting office had not received any work requests to expend any of the funds. The funds either needed to be properly expended or timely deobligated during the current fiscal year to allow the monies to be used for other endeavors. This issue was previously reported in an audit memorandum, and management responded that a work request was prepared to expend the $194,000 by the end of FY 1999 (see Appendices V and VI).

Requisitions are not being timely submitted to add the necessary funding to existing contracts to extend the life of the contract.

In two other instances, requisitions were not timely submitted to add funds to existing contracts to extend the time period of the contract. One program office wanted to extend the contract for three months; however, it did not submit the requisition to the Procurement function before the contract expired. The CO decided it was in the best interest of the government to allow the contractor to continue to work instead of recompeting the contract for three months. The CO informed the contractor that the performance period would be extended, and invoices totaling $199,100 were accumulated during this 3-month period. The requisition was provided at the end of the three months, at which time payment was made.

In another instance, program office management wanted to resolve funding concerns before they would sign the requisition to provide funding for the remainder of the contract. The CO decided it was in the best interest of the government to allow the contractor to continue to work instead of letting the contract expire, and invoices totaling $979,734 were accumulated during this 3-month period. The requisition was provided at the end of the three months, at which time payment was made.

According to the FAR and Procurement guidelines, the CO is responsible for ensuring that funds are available prior to making an obligation. By allowing the contractor to continue to work, the CO may have created a liability in excess of funds.

The program office did not properly designate a COTR.

In a final instance, the program offices did not properly designate a COTR. A COTR's duties include approving and verifying whether the deliverables comply with the terms of the contract. Without the assurance that the deliverables are inspected, funds may be expended for goods and services that do not meet the government requirements.

We believe the program offices need to provide sufficient oversight after the contract is awarded to prevent funds from being placed at risk.

Recommendations

1. The Director of Procurement should require that an acquisition plan is completed prior to the issuance of a solicitation.

Management's Response: IRS management stated that Procurement's Policy and Procedures (P&P) Memorandum 7.1 already requires completion of acquisition plans prior to release of a solicitation, therefore no further action is necessary. However, Procurement management plans to make all policy guidance available on the IRS Procurement Intranet site where it will be accessible to IRS personnel.

Office of Audit Comment: The FAR, the Department of Treasury Acquisition Regulations, and IRS Procurement P&P 7.1 all require completion of acquisition plans prior to the issuance of a solicitation. However, at the time of our review, the acquisition plans had not been prepared before the issuance of the solicitation. Although guidance is available, we believe Procurement management should not continue with the acquisition process until the plan is properly completed. Procurement management's plan to allow broader access to the policy guidance via the Intranet may help in reminding the responsible employees to prepare the plans, but this does not ensure they are done.

2. Procurement function personnel should review the guaranteed minimum level and monitor the pace of ordering. The Director of Procurement should notify the appropriate head of office when sufficient quantities are not being ordered to satisfy guaranteed minimums.

Management's Response: Although Procurement management believes the program offices must ultimately decide their program needs, they agreed with our recommendation and said that guidance emphasizing the need for contracting officers to review guaranteed minimum levels and monitor the pace of ordering will be issued. COs will be required to notify program offices when it appears sufficient quantities are not being ordered to satisfy the guaranteed minimums.

3. The Director of Procurement should advise the program offices to provide requisitions on a timely basis, including requisitions which are subject to the availability of funds.

Management's Response: Procurement management believes appropriate mechanisms are already in place.

Office of Audit Comment: Although guidance is in place to encourage the program offices to timely submit requisitions, we believe the contracting officer is ultimately responsible for ensuring that funds are available prior to signing award documents. Requisitions provide the assurance that adequate funds will be available. While we believe the contracting officers acted in the best interest of the government by allowing the contractors to continue to work, the requisitions were not submitted until after costs had accumulated on the contract.

4. Procurement function personnel should monitor outstanding obligations and advise the program offices when funds need to be expended or deobligated.

Management's Response: Procurement management has implemented a process that results in a monthly (or more frequently) report on outstanding obligations. Managers use this report to identify overage items and assign them for tracking and resolution. Administrators then work with the program office to deobligate excess funds when necessary.

Procurement Management Needs to Ensure That Contracts Are Timely Closed Out and Funds Deobligated on Completed Contracts

Procurement management is not able to adequately manage the closeouts of contracts due to inconsistencies with the automated systems used to monitor contracts.

This condition exposes the IRS to unnecessary risks. For example, we identified approximately $352,000 of funds from completed contracts that should be deobligated.

The information on contract closeouts is captured in the Interim Contract Administration Data (ICAD) database and the IPS. Currently both systems are being used to track contract closeouts because contracts completed before FY 1998 are not captured on the IPS. The information in the ICAD is updated when Procurement personnel inform the appropriate analyst of the necessary changes. If the appropriate analyst is not notified of changes, the information is not properly updated in ICAD. We identified some inaccuracies in the ICAD information that we reviewed. For instance, contract closeout dates were listed as occurring before the completion dates.

Not all the COs are updating the status of closeouts in the IPS.

For those contracts on the IPS, it is up to the Procurement personnel to update the data. However, not all the COs are properly updating the status of closeouts in the IPS. We obtained an IPS listing of inactive contracts and sampled 40 of them to determine whether the contracts should have been closed. Our analysis revealed:

- Ten contracts were closed but had not been properly reflected as closed on the IPS.
- Thirty contracts were completed but not timely closed, according to the IPS completion dates.

We were advised by the COs that they were not aware they needed to update the IPS or just did not update it, causing the information to be inaccurate. Since Procurement management is relying on the information in the IPS to manage contract closeouts, it is imperative that the information is accurately reflected on the system.

Approximately $352,000 has not been timely deobligated from completed contracts.

Accurately capturing the information also helps the COs recognize excess funds that can be deobligated. We believe the COs are not effectively using the IPS to determine when funds need to be deobligated. We identified approximately $352,000 that should have been deobligated from completed contracts.

Contracting officers need to ensure the IPS is timely updated and that data input is accurate if the system is to be beneficial in monitoring contract activity. Also, Procurement managers and COs need to fully use the IPS to ensure contracts are properly closed out and to identify contract funding commitments that need to be timely deobligated.

Recommendations

5. The Director of Procurement should issue guidance establishing that the COs are responsible for updating the IPS.

<u>Management's Response:</u> A memorandum reminding contracting personnel of their responsibilities to timely update the IPS will be issued.

6. The Director of Procurement should implement procedures for periodic reviews to ensure contracts are properly closed out and excess funds timely deobligated.

<u>Management's Response:</u> Procurement management agrees that improvement is needed in timely closeout of IRS contracts. Each National Office branch chief with responsibility for contract closeout will commit to significantly reducing the number of overage and current closeouts in his/her branch by the end of the fiscal year. This commitment will be included in his/her FY2000 Manager Performance Agreement.

Conclusion

Improvements are needed in monitoring contracting activities before and after contract award. Approximately $2 million of government funds were unnecessarily expended or placed at risk because of inadequate planning and oversight of contracting activities. Program offices need to place additional emphasis on planning for the acquisition of goods and services. Also, Procurement managers need to ensure contracts are timely closed out and excess funds deobligated.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Internal Revenue Service (IRS) is effectively and efficiently planning for and administering contracts. To accomplish this objective, we:

I. Determined if the program office needs were adequately defined prior to contract or task order award to allow for maximum competition and best value to the government.

   A. Selected a judgmental sample of 7 solicitations from a universe of 57.

   B. Reviewed solicitation files in program offices and interviewed the contracting officer's technical representatives (COTRs) to determine how needs were developed, including government cost estimates and guaranteed minimums.

II. Determined whether the contracting and program offices effectively planned for the acquisition of goods and services.

   A. For the sample of 7 solicitations, reviewed documentation maintained by the project office to support acquisition planning (i.e., requirements, work breakdown structure, budget, risk analysis, evaluation factors, etc.).

   B. Interviewed the COTRs to determine how they developed their needs.

   C. Reviewed the contracting officers' (CO) files and interviewed the COs to determine whether they had developed acquisition plans.

III. Determined whether contracts were effectively administered.

   A. Using a comprehensive list of active contracts provided by the Procurement function's Integrated Procurement System (IPS), eliminated all the contracts which were not information technology related. We then eliminated those under $1 million and those dated prior to 1995 (contracts in the period prior to 1995 were covered under a prior review). This left a universe of 106 contracts. We judgmentally selected 20 contracts to review. These 20 contracts have an estimated systems life value of $5,367,000,000.

   B. Reviewed the COTR files and interviewed the COTRs to determine if the receipt and acceptance process provided adequate assurance that the IRS was paying for only goods and services received in accordance with contract terms.

C. Determined whether contracts were properly closed out and funds deobligated.

1. Obtained a listing of 90 inactive contracts from the IPS. We judgmentally selected 40 contracts, which should have been closed, for our analysis.
2. Reviewed the IRS' Automated Financial System for all completed, but not closed, contracts from our sample to determine whether funds had been deobligated.

D. Determined how the IPS has affected contract administration.

1. Interviewed COs, COTRs, and IPS analysts to determine how contracts were assigned and administered in the IPS (deobligation, receipt and acceptance, tracking costs).
2. Interviewed the COs to determined how COs were using the system to facilitate contract administration.

Appendix II

Major Contributors to This Report

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
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Appendix III

Report Distribution List

Deputy Commissioner Operations C:DO
Chief, Agency-Wide Shared Services A
Director, Office of Program Evaluation and Risk Analysis M:O
Director of Procurement[1] A:P
National Director for Legislative Affairs CL:LA
Office of the Chief Counsel CC
Office of Management and Control M:CFO:A:M
Audit Liaison – Procurement A:P

[1] At the beginning of our audit, this position was known as the Assistant Commissioner (Procurement).

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Findings and recommendations:

- Funds are being placed at risk due to inadequate planning by program offices (page 3).

- Procurement management needs to ensure that contracts are timely closed out and funds deobligated on completed contracts (page 9).

Type of Outcome Measure:

- Cost savings – potential outcome.
- Protection of Resources/Reliability of Information – potential outcome.

Value of the Benefit:

Description	Amount
1. Funds underestimated by program office during planning (Protection of Resources/Reliability of Information).	$157,000
2. Monies unnecessarily expended to meet guaranteed minimums (Cost Savings).	$123,000
3. Monies that had not been timely spent or deobligated (Cost Savings).	$194,000
4. Funds accumulated while contractor continued to work without funding, which could have caused excess liabilities (Protection of Resources/Reliability of Information).	$1,178,834
5. Funds not timely deobligated on completed contracts (Cost Savings).	$352,000
Total	**$2,004,834**

Methodology Used to Measure the Reported Benefit:

1. Reviewed the solicitation file. There was documentation stipulating these additional funds were needed.

2. Reviewed the contract file, which indicated guaranteed minimums had been paid. Interviewed the Contracting Officer (CO) and determined the minimums were paid because the program office had not requested any work.

3. Documentation in the contract file that indicated these funds had been obligated and not expended. Interviewed the CO and CO's Technical Representative and verified that the funds had not been expended and that, at the time of our review, there were no plans to expend the funds.

4. Documentation in the contract files indicated the requisitions to add funding to extend the contracts were not provided by the program office. Reviewed invoices to determine the amount invoiced during this period.

5. Selected completed contracts and reviewed the IRS' Automated Financial System to determine whether funds were still obligated.

Appendix V

Memorandum #1: Inadequate Planning Has Resulted in Ineffective Use of Funds

July 22, 1999

Response Date:
August 6, 1999

MEMORANDUM FOR ASSISTANT COMMISSIONER (PROCUREMENT) AND
CHIEF HUMAN RESOURCES OFFICER
INTERNAL REVENUE SERVICE

Maurice S. Moody

FROM: Maurice S. Moody
Associate Inspector General - Headquarters Operations and Exempt Organizations Program

SUBJECT: Review of the Effectiveness of the Internal Revenue Service's Pre-award and Post-award Practices (990052) – Memorandum #1

As indicated in our Annual Audit Plan, the Treasury Inspector General for Tax Administration (TIGTA) will evaluate the effectiveness of the Internal Revenue Service's (IRS) use of contracts. To meet this responsibility, the Office of Audit is conducting an audit that focuses on determining the effectiveness of the pre-award and post-award practices on contracts related to the IRS modernization efforts. We are evaluating whether the IRS has clearly defined contractor requirements and whether proper oversight is being provided to properly administer the contract.

During the audit, we determined that acquisition planning by one of the program offices in the IRS has not been effective. Approximately $317,000 of government funds have either been wasted or placed at risk because the Corporate Education Office did not adequately plan for the procurement of training services. We believe improvements in planning and defining requirements prior to obtaining the contract would have better protected government resources.

If you do not agree with the facts, conclusions, or recommendations presented in this memorandum, please contact my office within five workdays. Please call me at (202) 622-8500 if you have any questions, or your staff may contact John Wright, Director, Tax Administration/Agency Shared Services, at (703) 812-1568.

Background

The program office needs to adequately plan to acquire goods and services.

The procurement process provides a means for users to obtain goods and services through a contracting method. The process begins with the identification of a need by the user or program office. The user defines the need through a statement of work using specifications and requirements and forwards the requisition to procurement personnel. Acquisition planning includes defining the need, obtaining the funding for the need, and determining the type of contract vehicle to obtain those goods and services.

Results

Approximately $123,000 in guaranteed minimum payments was paid to contractors for which no goods or services were received.

Approximately $317,000 of government funds have either been wasted or placed at risk because of inadequate acquisition planning by the Corporate Education Office. The IRS expended $123,000 to satisfy the guaranteed minimum quantity requirements specified in a multiple award Indefinite Delivery Indefinite Quantity (IDIQ) contract. Because the IRS did not request services from the contractors, the guaranteed minimums were paid and the IRS did not receive any goods or services in exchange for these payments.

Furthermore, Corporate Education has obligated $194,000 of government funds for training services for which no work has been requested to date. According to the Contracting Officer, if the funds are not expended or deobligated during the current fiscal year, then the monies will not be available for future expenditures.

Inadequate planning by the Corporate Education Office has resulted in ineffective use of funds.

The Corporate Education Office has not adequately planned for the acquisition of training services under the Training and Performance Development contract. In April 1998, IRS Procurement awarded a multiple award

IDIQ contract to meet the need for training services. The contract period is a base year with four option years. Under a multiple award IDIQ contract, several contractors are awarded the contract and, according to regulations, the contract shall require the government to order at least a stated minimum quantity of supplies or services. This stated minimum quantity is called a guaranteed minimum. Guaranteed minimums were stipulated in the contract for the base year.

The Training and Performance Development contract divided training services into various service areas. Orders for goods and services should have been issued to the contractors in each service area since the guaranteed minimum was based on the work in each service area. At the inception of the contract, the total of the guaranteed minimum for all contractors was $660,000.

The Contracting Officer was able to negotiate with a contractor and reduce the government's liability by $15,000.

Orders for goods and services were insufficient to cover the guaranteed minimums for each of these contractors. Corporate Education did not require users to order from the contract, thus not all the contractors in each service area received orders. As a result, the IRS was required to pay $138,000 to those contractors that did not receive any orders. The Contracting Officer was able to negotiate with one contractor and reduce the government's liability to $123,000.

Corporate Education obligated $194,000 and has not issued any work requests to expend these funds.

In another instance on this contract, Corporate Education has not timely expended obligated funds. Corporate Education issued a task order against the contract which obligated $194,000 of government funds. Corporate Education obligated these funds with the expectation of issuing individual work requests, once the requirements were defined, to expend the funds. To date, the contracting office has not received any work requests to expend any of the funds. The funds either need to be properly expended or timely deobligated during the current fiscal year to allow the monies to be used for other endeavors.

We believe effective oversight by the Corporate Education Office could have prevented these monies from being wasted or placed at risk. Adequate planning by Corporate Education would have allowed them to better define their needs prior to requesting a contract or obligating funds.

The issues highlighted in this memorandum will be presented in our audit report when the review is completed. The following recommendation is specific to Corporate Education and the training contract. Additional recommendations regarding the acquisition process may be included in the final audit report.

Recommendation

Corporate Education needs to either expend the obligated funds for the purpose(s) intended or timely deobligate the funds so that the monies can be used for other endeavors.

Appendix VI

Management's Response to Memorandum #1

08/20/99 FRI 11:13 FAX 703 605 1520 PROGRAM INTEGRATION 002

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

JUL 30 1999

MEMORANDUM FOR ASSOCIATE INSPECTOR GENERAL – HEADQUARTERS OPERATIONS AND EXEMPT ORGANIZATIONS PROGRAM

FROM: Linda M. McCullar Linda M. McCullar
Director, Program Integration

SUBJECT: Review of the Effectiveness of the Internal Revenue Service's Pre-award and Post-award Practices (990052) - Memorandum #1

This is in response to your July 22, 1999 memorandum in which the Treasury Inspector General for Tax Administration (TIGTA) determined that acquisition planning by one of our program offices has not been effective on contracts related to the IRS modernization efforts.

Regarding the approximately $123,000 in guaranteed minimum payments that Corporate Education paid to contractors for which no goods or services were received.

Corporate Education agrees with TIGTA's finding that orders for goods and services should have been issued to the contractors in each service area since the guaranteed minimum was based on the work in each service area. The Office of Human Resources (OHR) is in the process of establishing an Acquisition Team that will review and provide oversight for all contracting activities. This new process should eliminate future problems such as the one identified for the guaranteed minimum payment.

Regarding the $194,000 that Corporate Education obligated and has not issued any work requests to expend these funds.

Corporate Education is preparing a work request in the amount of $194,000 for instructors to deliver PDS training to revenue agents, revenue officers and customer service representatives during the remainder of this fiscal year. Accordingly, the entire $194,000 will be expended.

Working together, we can ensure the most effective use of training resources to support the delivery of the Service's mission. If your staffs need additional information, they should contact George Westry at (703) 308-6039.

Appendix VII

Management's Response to the Draft Report

COMMISSIONER

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

RECEIVED
FEB 10 2000

February 9, 2000

MEMORANDUM FOR DAVID C. WILLIAMS
TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

FROM: Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report - Improvements Are Needed in Planning for the Acquisition of Goods and Services and in Managing Contract Closeouts

Following is the response from the Procurement organization addressing the issues discussed in the subject report. Included are corrective actions for recommendation numbers 1, 2, 4, 5, and 6. No corrective action is proposed for recommendation 3 for the reasons described in the narrative. Clarification and comments regarding recommendations 1 and 2 are also provided.

Several times your report noted that acquisition planning by the program offices could be improved. We concur with this assessment and are encouraging them to execute better planning activities in partnership with Procurement.

Jim Williams, Director, Procurement is available at (202) 622-8480 if you have any questions. Your staff may contact his audit coordinator Donna Craver at (202) 283-1122 for additional information.

Recommendation 1 states that the Director of Procurement should require completion of an acquisition plan prior to issuance of a solicitation. We already have this requirement in place.

The Federal Acquisition Regulation (FAR) 7.1, the Department of Treasury Acquisition Regulation (DTAR) 1007.1, and IRS Procurement's Policy and Procedures Memorandum (P&P) No. 7.1 all require acquisition plans. P&P 7.1 requires that the plan be completed prior to issuance of a solicitation. While we agree that better planning is sometimes needed, market conditions, unforeseen funding shortages, or changes in government strategy can often supersede the most carefully prepared plans.

The report identified three instances in which acquisition plans were not prepared prior to release of the solicitation. In one, the acquisition was awarded under streamlined sole source procedures, and no solicitation was issued. The recommendation is a moot point in this situation. However, an acquisition plan was prepared for the project.

In another instance, the report states that the funding estimate was based on outdated information and an extra $157,000 had to be obtained before contract award. The need for additional funds is a common occurrence when preparing for award since the program offices can only estimate the anticipated project costs prior to actual award. Many factors, such as those listed above, can result in a disparity between the government estimate and the actual award amount. In this case, the additional funds were available and there was no significant impact on the award.

In the third instance, the program office asked for a perpetual license for 100 software packages, and at the time of the review, had used only two. While preparing an acquisition plan, the program office could possibly have completed a better needs assessment. Without additional information, however, it is not clear if the miscalculation was the result of circumstances which occurred prior to or after award.

Recommendation 2 states that Procurement function personnel should review the guaranteed minimum level and monitor the pace of ordering. It further states that the Director of Procurement should notify the appropriate head of office when sufficient quantities are not being ordered to satisfy guaranteed minimums.

The report states that "funds are being placed at risk due to inadequate planning and oversight by program offices" and that "improved acquisition planning may help program offices protect government resources by ensuring that the needs, costs, risks, and plans of action are addressed prior to acquisition of the goods and services." It also finds that "program offices need to provide better oversight after contract award." However, the report calls for corrective action by the Procurement organization.

Procurement personnel regularly monitor ordering trends on indefinite delivery/indefinite quantity (ID/IQ) contracts to appropriately advise customers. We are concerned about the apparent trend toward asking Procurement to accept responsibility for program management. While we are committed to working hand-in-hand with our customers to assure that the Service obtains needed goods and services in the most advantageous manner, the program offices must ultimately decide their needs, in terms of both quantity and delivery. However, we will emphasize the need for contracting officers to continue to assist the program offices in monitoring the ordering under ID/IQ contracts.

In addition, the report indicates that this issue was previously reported in an audit memorandum, and that management responded that an acquisition team would be established in the program office to review and provide oversight for all contracting activities. It should be noted that the response was appropriately prepared by the program office, the Director, Program Integration (formerly Corporate Education), rather than the procurement office.

Recommendation 3 states that the Director of Procurement should advise the program offices to provide requisitions on a timely basis, including requisitions which are subject to the availability of funds. We already accomplish this with several procedures.

Before a contract or contract option period expires, the contracting officer sends a memorandum to the program office: (1) reminding them that the expiration date is approaching, and (2) asking them to submit any necessary requisitions. Renewal requisitions are normally submitted, subject to the availability of funds, prior to the expiration date. If requisitions are not submitted timely, the requisitioner is contacted by telephone or email, and asked again to submit the necessary document(s). If this is not successful, additional contacts are made and the issue is escalated to a manager. Ordinarily, these issues, when they exist, are resolved at lower levels.

In addition, requisition due dates are provided to Procurement customers each year. These charts indicate that particular types of acquisitions cannot be awarded timely unless the requisitions are received by the specified dates. The IRS Office of Procurement Policy also conducts annual Advance Procurement Planning (APP) seminars, which are open to IRS personnel. These seminars address pertinent issues relative to the procurement process.

Recommendation No. 1:

The Director of Procurement should require that an acquisition plan be completed prior to the issuance of a solicitation.

Assessment of Cause:

The report finds that failure to complete an acquisition plan prior to release of a solicitation may result in unnecessary contract expenditures.

Corrective Action:

Policy and Procedures Memorandum No. 7.1, Acquisition Plans, dated January 15, 1999, clearly sets forth the requirement for completion of acquisition plans prior to release of the solicitation. Since the requirement already exists, no further action is necessary.

However, the Office of Procurement Policy is presently working on making all policy guidance available on the IRS Procurement Intranet site. Once completed, this will allow broader access to available policy guidance to all IRS personnel.

Implementation Date:

Proposed July 1, 2000.

Responsible Official:

Director, Procurement.

Recommendation No. 2:

Procurement function personnel should review the guaranteed minimum level and monitor the pace of ordering. The Director of Procurement should notify the appropriate head of office when sufficient quantities are not being ordered to satisfy guaranteed minimums.

Assessment of Cause:

The report finds that in one instance the guaranteed minimum was paid to a contractor when the Service had not ordered any goods or services during the contract period. In another instance, $194,000 had been obligated but the money had not been expended at the time of the review.

Corrective Action:

The Director, Office of Procurement Policy will issue guidance emphasizing the need for contracting officers (COs) to review guaranteed levels and monitor the pace of ordering for ID/IQ contracts. The guidance will also require COs to notify program offices when ordering trends appear to jeopardize the ordering of sufficient quantities to satisfy the guaranteed minimums.

Implementation Date:

Proposed May 1, 2000.

Responsible Official:

Director, Procurement

Recommendation No. 3:

The Director of Procurement should advise the program offices to provide requisitions on a timely basis, including requisitions which are subject to the availability of funds.

Assessment of Cause:

The report finds that late submission of funded requisitions twice placed the government at risk when contractors continued contract performance without a formal contract extension.

Corrective Action:

Appropriate mechanisms already in place.

Implementation Date:

Not applicable.

Responsible Official:

Not applicable.

Recommendation No. 4:

Procurement function personnel should monitor outstanding obligations and advise the program offices when funds need to be expended or deobligated.

Assessment of Cause:

The report finds that some contracting officers are not updating the status of closeouts in the IPS, and that approximately $352,000 has not been timely deobligated from completed contracts.

Corrective Action:

The Director, Office of Contract Administration has implemented a process which results in a monthly (or sometimes more frequent) report on outstanding obligations. With this report, managers identify possible overage items and assign them for tracking and resolution. The individual administrators then work with the program office representatives to take appropriate action, deobligating excess funds when necessary.

Implementation Date:

Completed April 1999.

Responsible Official:

Director, Procurement.

Recommendation No. 5:

The Director of Procurement should issue guidance establishing that the COs are responsible for updating the IPS.

Assessment of Cause:

The report finds that contract closeouts cannot be properly monitored because some of the administrators indicated that they did not know they were required to update contract administration data in the IPS system.

Corrective Action:

The Director, Office of Procurement Policy will issue a memorandum reminding contracting personnel of their responsibilities to provide timely updates to the IPS.

Implementation Date:

Proposed May 1, 2000.

Responsible Official:

Director, Procurement.

Recommendation No. 6:

The Director of Procurement should implement procedures for periodic reviews to ensure contracts are properly closed out and excess funds timely deobligated.

Assessment of Cause:

The report finds that additional oversight is needed to ensure contracts are timely closed out and excess funds deobligated.

Corrective Action:

We agree that improvement is needed in the timely closeout of IRS contracts. Each National Office branch chief with responsibility for contract closeouts will include a closeout commitment in his/her FY 2000 Manager Performance Agreement. Each will commit to significantly reducing the number of overage and current closeouts in his/her branch by the end of this fiscal year.

Implementation Date:

Proposed October 1, 2000.

Responsible Official:

Director, Procurement.