Actions to Correct Service Center Mainframe Consolidation Contract Administration Issues Have Not Been Completed, But Progress Is Being Made

September 2000

Reference Number: 2000-20-140

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 25, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

Pamela J. Gardiner

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Actions to Correct Service Center Mainframe Consolidation Contract Administration Issues Have Not Been Completed, But Progress Is Being Made

This report presents the results of our follow-up review of the corrective actions for the contract administration issues reported in our prior audit *The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain* (Reference Number 199920068, dated September 1999).

In summary, delivery order definitization has not been completed and invoices for services are not adequately verified. However, management is continuing its work to complete the corrective actions. We recommended that the Chief, Agency-Wide Shared Services, ensure that the definitization of all delivery orders is completed for the Service Center Mainframe Consolidation contract, and the Chief Information Officer provide the resources needed to adequately verify the invoices for services.

Management agreed and has taken action on our recommendations. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Our follow-up on the prior recommendations identified a measurable benefit for tax administration in the form of cost savings of $40.2 million. These benefits were previously discussed with the Chief Information Officer and the Chief, Agency-Wide Shared Services. Appendix IV of this report provides a detailed description of these benefits. We reported $19 million of the $40.2 million in the April 1, 1999 -

September 30, 1999, Semiannual Report to the Congress (SAR). The remaining cost savings of $21.2 million will be included in the next SAR.

Copies of this report are also being sent to the IRS managers who were affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Scott E. Wilson, Associate Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

Table of Contents

Executive Summary

The Internal Revenue Service (IRS) is in the process of consolidating the mainframe computer operations used to process tax data. The consolidation involves moving mainframe processing from the IRS' 10 service centers[1] to new mainframe computers located in 2 computing centers[2]—the Tennessee Computing Center and the Martinsburg Computing Center. As of March 2000, the 5-year cost estimate for the consolidation project was nearly $480 million, which includes extensive contractor support.

The overall objective of this audit was to determine whether IRS management effectively addressed contract administration issues reported in the prior audit *The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain* (Reference Number 199920068, dated September 1999) and quantify the resulting outcomes. The prior audit reported that controls over technical aspects of contract administration remain inadequate.

Results

The IRS began work to address the contract administration issues from our prior report. Although corrective actions have not been completed as planned, the IRS has already realized measurable outcomes. However, further delays in completing the corrective actions increase the risks of incurring additional or inappropriate costs.

Definitization of All Delivery Orders for the Service Center Mainframe Consolidation Project Has Not Been Completed

In the prior audit, we reported that delivery orders were not adequately definitized and recommended that IRS management ensure that all delivery orders were definitized by

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[1] The service centers are the data processing arm of the IRS. The service centers process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.
[2] IRS computing centers support tax processing and information management through a data processing and telecommunications infrastructure.

June 1999. Undefinitized delivery orders are those in which the contractor has been authorized to begin work, but the cost of the work has only been proposed and not negotiated. Since the prior audit, inventory reconciliation and price validation have been completed for all delivery orders, except for third-party software (and related maintenance) and training. The process of definitizing the contracts "after the fact" has been much more labor-intensive and time consuming than Procurement personnel originally anticipated. Consequently, 62 of 136 delivery orders (about $173.4 million of $352.3 million) are not completely definitized. Definitization efforts as of April 2000 have resulted in $40.2 million in cost savings, of which $31.8 million have been deobligated.[3] The remaining $8.4 million represents additional delivery order cost reductions.[4] Completion of definitization may result in additional cost savings of approximately $7.6 million if the savings occur at the same rate as savings from previously definitized delivery orders.

Invoices for Services Still Are Not Adequately Verified

The prior audit recommended that the Service Center Mainframe Consolidation Project Office provide full-time, on-site Government Task Managers (GTMs) to verify invoices for delivered goods,[5] services (labor), and travel. However, full-time GTMs were not hired. Instead, the tasks of verifying delivered goods and travel costs were assigned as additional duties to employees at the computing centers, but no one was assigned to verify invoices for services. For Fiscal Year 1999, the major delivery orders issued for support services (labor and travel) included $21.4 million in labor, which were not adequately verified. Inadequate verification of invoiced services could lead to the IRS paying for services not received.

Summary of Recommendations

The Chief, Agency-Wide Shared Services, should ensure that all current delivery orders are completely definitized and future delivery orders are timely definitized, and the Chief

[3] Deobligation is the decommitment of appropriated funds by the Government.
[4] Procurement management has not verified that the $8.4 million in delivery order cost reductions resulted solely from definitization efforts.
[5] Goods refer to merchandise, e.g., cables and computer software and hardware.

Information Officer should provide the resources needed to adequately verify the invoices for services.

Management's Response: Management agreed and has taken action on our recommendations. Management's complete response to the draft report is included as Appendix V.

Objective and Scope

This audit was initiated as a follow-up to contract administration issues reported in the prior Service Center Mainframe Consolidation (SCMC) audit *The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain* (Reference Number 199920068, dated September 1999).

The prior audit reported that controls over technical aspects of contract administration remain inadequate. We recommended that all delivery orders be defined by June 1999 and that proper contract administration procedures be followed.

The overall objective of the current audit was to determine whether IRS management effectively addressed the reported contract administration issues and to quantify the resulting outcomes.

The overall objective of the current audit was to determine whether Internal Revenue Service (IRS) management effectively addressed the reported contract administration issues and to quantify the resulting outcomes.

We conducted the audit between March and May 2000, in accordance with *Government Auditing Standards*. We gathered and reviewed information from the SCMC Project Office in McLean, Virginia; the IRS Procurement Office in Oxon Hill, Maryland; the Tennessee Computing Center in Memphis, Tennessee; and the Martinsburg Computing Center in Martinsburg, West Virginia.

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

Background

In 1995, the Office of Management and Budget issued Bulletin Number 96-02 providing a requirement for consolidation of data centers with large mainframe operations. In 1997, the IRS formed the SCMC Project Office with an objective to consolidate mainframe computers from 10 service centers[1] into 2 computing centers.[2] In addition, over 17,000 desktop computer terminals were to be replaced. The SCMC Project Office reported in March 2000 that the 5-year cost estimate for the SCMC Project was nearly $480 million, which includes extensive contractor support.

Results

The IRS began implementing corrective actions to address the contract administration issues that we previously reported.

The IRS began implementing corrective actions to address the contract administration issues that we previously reported. In the prior audit, we reported that goods and services estimated at $7 million were procured without the contracting officer's authorization. Corrective action to address this issue was completed when the Assistant Commissioner (Procurement) reminded the SCMC Project Office and contractor staffs that the Contracting Officer is the only one authorized to obligate the Government. The remaining corrective actions were partially completed.

- The validation and reconciliation of the goods[3] ordered and the validation of the pricing of the goods and services ordered have been completed, with the exception of third-party software (and related maintenance) and training.

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[1] The service centers are the data processing arm of the IRS. The service centers process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.
[2] IRS computing centers support tax processing and information management through a data processing and telecommunications infrastructure.
[3] Goods refer to merchandise, e.g., cables and computer software and hardware.

As of April 19, 2000, 99 of 136 delivery orders had been completely or partially definitized resulting in cost savings of $40.2 million. Completion of definitization may result in additional cost savings.

- Verification of goods delivered and travel reports has been assigned to existing computing center personnel, but the responsibility for verifying contractor hours worked has not been assigned.

Definitization of All Delivery Orders for the Service Center Mainframe Consolidation Project Has Not Been Completed

Under the Service Center Support System contract used for mainframe consolidation, hardware and software purchases are charged based on a Firm Fixed Price (FFP),[4] and services are charged based on the contractor's level of effort.[5] In a FFP environment, requirements need to be well defined to allow fair and reasonable prices to be negotiated. Undefinitized orders are those in which the contractor has been authorized to begin work, but the cost of the work has only been proposed and not negotiated. This technique provides the Contracting Officer the flexibility to issue delivery orders quickly, but in a FFP environment, exposes the IRS to possible liability for additional costs if the pricing elements are not quickly finalized.

In the prior SCMC audit, we reported that delivery orders were not adequately definitized.

In the prior SCMC audit, we reported that delivery orders were not adequately definitized and recommended that all delivery orders be definitized by June 1999. To help accomplish this, we recommended

[4] A Firm Fixed Price is an agreed upon price that will not change during the life of the contract.
[5] Level of effort in this case primarily refers to the number of labor hours required to accomplish a project.

that: 1) the SCMC Project Office validate the inventory of goods and services ordered for accuracy, quantity, etc. and 2) the Procurement Division validate the goods and services for pricing accuracy. With the exception of third-party software (and related maintenance) and training, these items have been completed. However, definitization has not been completed because the process of definitizing the contracts "after the fact" has been much more labor-intensive and time consuming than Procurement personnel originally anticipated. As of April 19, 2000, there were 136 delivery orders (valued at approximately $352.3 million) issued against the contract. The definitization status and approximate value of the 136 delivery orders are as follows:

- 74 ($178.9 million) were fully definitized.
- 25 ($80.8 million) were in the process of being definitized.
- 37 ($92.6 million) needed to be definitized or the status of definitization needed to be researched by Procurement personnel.

Delivery order definitization efforts completed as of April 2000 have resulted in cost savings of $40.2 million. Completing the definitization of the remaining delivery orders could result in additional cost savings.

Delivery order definitization efforts completed as of April 2000 have resulted in cost savings of $40.2 million ($31.8 million in deobligated funds[6] and $8.4 million in additional delivery order cost reductions[7]). Completing the definitization of the remaining delivery orders could result in additional cost savings. We estimated the additional savings to be approximately $7.6 million if the savings occur at the same rate as savings from previously definitized delivery orders. See Appendix IV for the cost savings details.

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[6] Deobligation is the decommitment of appropriated funds by the Government.

[7] Procurement management has not verified that the $8.4 million in delivery order cost reductions resulted solely from definitization efforts.

Recommendation

1. The Chief, Agency-Wide Shared Services, should ensure that all current delivery orders are completely definitized and future delivery orders are timely definitized.

Management's Response: The IRS has completed negotiation of outstanding issues, has implemented weekly reporting of undefinitized actions, and is finalizing all current and prior year delivery orders issued as undefinitized.

Invoices for Services Still Are Not Adequately Verified

On very large complex contracts, there should be Government Task Managers (GTMs) on site to report to the Contracting Officer's Technical Representative (COTR). The GTMs verify labor hours worked, travel, etc. and report receipt and acceptance of these items to the COTR. Without the information GTMs provide, the COTRs cannot adequately verify the invoices. Inadequate verification of the invoices could lead to the IRS paying for services not received or for inappropriate travel costs.

In the prior SCMC audit, we reported that invoices for services and travel were not adequately verified.

In the prior SCMC audit, we reported that invoices for services and travel were not adequately verified and recommended that full-time GTMs be established. Management proposed to establish full-time GTMs by January 1, 1999. During the current audit, we found that full-time GTMs were not in place as proposed because the request for funding the positions was not approved.

For Fiscal Year 1999, the major delivery orders issued for support services (labor and travel) included $21.4 million for labor, which were not adequately verified.

Instead, the GTM responsibilities for verifying delivered goods and travel reports were assigned as additional duties to existing personnel at both computing centers. However, no one has been assigned to provide the information needed to verify the invoices for services. Consequently, these invoices are being paid without adequate verification. For Fiscal Year 1999, the major delivery orders issued for support services (labor and travel) included $21.4 million for labor, which were not adequately verified.

The SCMC Project Office is in the process of developing procedures for verifying the contractor hours worked. However, it is not certain when the procedures will be finalized and implemented. Without the information provided by the verification procedures or the GTMs, the COTRs cannot adequately verify the invoices for services. Inadequate verification of these invoices could lead to the IRS paying for services not received.

Recommendation

2. The Chief Information Officer should provide the resources needed to adequately verify the invoices for services.

Management's Response: The IRS has established a process under which all SCMC contractor employee travel is pre-approved, formally designated 13 current staff members as GTMs at locations where contractor labor is routinely deployed, and developed written procedures requiring each contractor employee to submit a weekly report to the GTMs documenting hours worked and the work performed. The GTMs validate the reports. The COTR uses this information to approve invoices.

Conclusion

IRS management has made progress in improving contract administration; however, it must ensure that all delivery orders are completely definitized and that the resources needed to adequately verify invoices for services are provided to reduce the risk of incurring increased or inappropriate costs.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether Internal Revenue Service (IRS) management effectively addressed contract administration issues reported in the prior audit *The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain* (Reference Number 199920068, dated September 1999) and quantify the resulting outcomes.

I. To determine whether all delivery orders (for goods[1] and services) have been definitized[2] and validated, we:

A. Obtained and reviewed the most current report that lists the delivery orders' definitization and validation status.

B. Evaluated the results of the inventory verification/validation.

1. Reviewed the results of the comparison [performed by the Contracting Officer's Technical Representative (COTR) Group] of what had been ordered to the delivery orders proposed by the vendor.

2. Reviewed the results of the physical inventory of all equipment delivered to and installed at the two computing centers.

3. Reviewed the results of the reconciliation between the delivery orders (test I.B.1.) and the physical inventory (test I.B.2.).

C. Reviewed the Procurement Division's validation of pricing for goods and services.

1. Reviewed the negotiated price agreement(s) with the vendor for the delivery orders and determined the net adjustment of the delivery order(s) price (i.e., additional funds obligated or funds deobligated[3]).

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[1] Goods refer to merchandise, e.g., cables and computer software and hardware.
[2] A definitized order is one in which there is an agreement between a Government agency and a contractor on definitive terms, specifications, and price of a delivery order.
[3] Deobligation is the decommitment of appropriated funds by the Government.

2. Requested the monthly briefings about the status of the validation. The briefings were to have been prepared by the Contracting Officer and the Chief, Tax Processing Systems Branch, and presented to the Director, Office of Tax Systems Acquisition.

D. Reviewed the adjustments made to the Service Center Mainframe Consolidation (SCMC) budget as a result of delivery order definitization.

1. Requested for review the financial settlement reached with the vendor by applying overpayments/underpayments to delivery orders or vouchers.

2. Reviewed SCMC Project Office budget documentation reflecting the additional obligation or deobligation of funds resulting from the price negotiations.

II. To evaluate IRS management's actions to improve contract administration, we:

A. Determined whether full-time Government Task Managers (GTMs) and on-site support staff were in place to monitor and verify deliveries, hours worked by the contractor, and travel taken by the contractor for the SCMC Project.

1. Obtained a current SCMC Project organization chart to see which individuals were performing the GTM duties.

2. Requested a walk-through to determine how the COTRs monitored GTM activities to ensure that contractor hours worked were tracked and work performed for invoiced services was validated.

B. Determined what steps the Procurement Division took to ensure that the SCMC Project Office and contractor knew who was authorized to direct the contractor to perform work.

Appendix II

Major Contributors to This Report

Scott E. Wilson, Associate Inspector General for Audit (Information Systems Programs)
Gary V. Hinkle, Director
Danny R. Verneuille, Audit Manager
Mark K. Carder, Auditor
Dawn B. Smith, Auditor
Tina Wong, Auditor

Appendix III

Report Distribution List

Deputy Commissioner Modernization C:DM
Deputy Commissioner Operations C:DO
Chief Information Officer IS
Chief, Agency-Wide Shared Services A
Deputy Chief Information Officer, Operations IS
Director, Enterprise Operations IS:E
Director, Information Resources Management IS:IR
Director, Procurement A:P
Director, Mainframe Consolidation Project Office IS:E:CO
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis M:O
Office of Management Controls CFO:A:M
Office of the Chief Counsel CC
National Taxpayer Advocate TA
Audit Liaisons:
    Agency-Wide Shared Services A
    Program Oversight and Management Controls Office IS:IR:OM

Appendix IV

Outcome Measures

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

Finding and recommendation:
Definitization[1] of all delivery orders for the Service Center Mainframe Consolidation (SCMC) Project has not been completed. To realize any additional cost savings, the Chief, Agency-Wide Shared Services, should ensure that all current delivery orders are completely definitized and future delivery orders are timely definitized (see page 3).

We reported at the conclusion of the prior audit *The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain* (Reference Number 199920068, dated September 1999) that delivery orders (goods[2] and services contracted for) were not adequately definitized. We recommended that Internal Revenue Service (IRS) management ensure that all delivery orders be definitized by June 1999. The IRS has made some progress toward completing definitization of all delivery orders. As of April 19, 2000, the definitization status of the 136 delivery orders (valued at approximately $352.3 million) obligated under the Service Center Support System contract were as follows:

- 74 ($178.9 million) were fully definitized.
- 25 ($80.8 million) were in the process of being definitized.
- 37 ($92.6 million) needed to be definitized or the status of definitization needed to be researched by Procurement personnel.

Delivery order definitization efforts completed as of April 2000 have resulted in cost savings of $40.2 million ($31.8 million in deobligated funds[3] from delivery orders and $8.4 million in additional delivery order cost reductions[4]). Completion of definitization

[1] Definitization is an agreement between a Government agency and a contractor on definitive terms, specifications, and price.
[2] Goods refer to merchandise, e.g., cables and computer software and hardware.
[3] Deobligation is the decommitment of appropriated funds by the Government.
[4] Procurement management has not verified that the $8.4 million in delivery order cost reductions resulted solely from definitization efforts.

may result in additional cost savings of approximately $7.6 million if the savings occur at the same rate as savings from previously definitized delivery orders.

Type of Outcome Measure:
- Cost Savings - Funds Put to Better Use (Actual and Potential)

Value of the Benefit:
Our audit of the IRS' actions to correct reported SCMC contract administration issues identified the following value for the measure:

- Actual cost savings - definitization efforts as of April 2000 resulted in $40.2 million in cost savings: $31.8 million in deobligated funds from delivery orders and $8.4 million in additional delivery order cost reductions.

  Note: In the prior SCMC report and the SAR for April 1, 1999 - September 30, 1999, we reported $19 million of the total cost savings of $40.2 million. The remaining $21.2 million will be reported in the next SAR.

- Potential cost savings - completion of definitization may result in additional cost savings of approximately $7.6 million if the savings occur at the same rate as savings from previously definitized delivery orders.

Methodology Used to Measure the Reported Benefit:
For the $31.8 million in deobligated funds, we interviewed personnel and reviewed supporting documentation provided to us for the actual deobligated monies realized from delivery order definitization efforts as of April 2000. We compared the deobligated amounts on the SCMC Project Office budget documents to the related amounts on a delivery order modifications list from Procurement. The following is a summary of the details:

Table 1: Deobligated Funds

Delivery Order Number	Modification Number(s)	Deobligated Funds Amount[5]
IR-97-83187/0121 *	3	$(10,384.14)
IR-97-83188 *	3	$(55,982.00)
IR-97-83191 *	2	$(20,400.00)
IR-97-83192 *	2	$(11,537.00)
IR-98-83105 *	5	$(900.00)
IR-98-83106 *	4	$(98,005.20)
IR-98-83107/0138 *	3	$(5,846.20)
IR-98-83108 **	3	$(18,700.00)
IR-98-83108 **	4	$(8,213.00)
IR-98-83109 **	3	$(420,200.00)
IR-98-83111*	5	$(11,050.00)
IR-98-83112*	4	$(294,675.00)
IR-98-83114 **	18	$(3,016,895.00)
IR-98-83114 **	19	$(1,151,748.90)
IR-98-83115/0142 **	10	$(1,803,447.00)
IR-98-83115/0142 **	11	$(69,746.90)
IR-98-83116 **	10	$(3,213,984.00)
IR-98-83119 *	23 & 24	$(16,631,569.00)
IR-98-83119 *	25	$(475,939.12)
IR-98-83120 *	6	$(359,524.35)
IR-98-83121 *	2	$(8,745.00)
IR-98-83123 *	7	$(4,078,694.72)
Total Deobligated Funds		$(31,766,186.53)

* The cost savings from these 14 fully definitized delivery orders totaled $22.1 million.
** The cost savings from these 8 delivery orders, which were in the process of being definitized, totaled $9.7 million.

For the $8.4 million in additional delivery order cost reductions,[6] we reviewed a listing of delivery order modifications that showed decreases that were not included in the $31.8 million referred to above. The following is a summary of the details:

[5] Dollar amounts in parentheses represent negative amounts.
[6] Procurement management has not verified that the $8.4 million in delivery order cost reductions resulted solely from definitization efforts.

Table 2: Additional Delivery Order Cost Reductions

Delivery Order Number	Modification Number(s)	Additional Delivery Order Cost Reductions[7]
IR-97-83184	1 & 2	$(1,330,000.00)
IR-97-83186	10	$(699,115.51)
IR-97-83189	4	$(61.00)
IR-97-83190	3	$(15,548.00)
IR-98-83103	2	$(78,281.00)
IR-98-83110	4	$(298,793.00)
IR-98-83113	3	$(21,109.00)
IR-98-83116	9	$(313,012.00)
IR-98-83120	2 & 4	$(1,721,026.00)
IR-98-83127	1 & 2	$(395,917.00)
IR-98-83130	1	$(1,000,000.00)
IR-99-83104/IPS #0163	3 & 4	$(1,111,164.00)
IR-99-83105/IPS #0164	3	$(32,634.08)
IR-99-83106/IPS #0160	3 & 4	$(784,488.00)
IR-99-83107/IPS #0159	3	$(94,308.94)
IR-99-83116/IPS #0175	1 & 3	$(22,521.00)
IR-99-83117/IPS #0174	2	$(800.00)
IR-99-83118/IPS #0179	2 & 3	$(31,500.00)
IR-99-83127/IPS #0182	1	$(16,560.00)
IR-99-83138/IPS #0192	1	$(1,655.00)
IR-99-83144/IPS #205	1	$(120.00)
0211	1 & 2	$(2,467.00)
0213	1	$(5,499.90)
0228	1	$(301.00)
0229	1	$(425,423.21)
Total Additional Delivery Order Cost Reduction		$(8,402,304.64)

For the potential cost savings of approximately $7.6 million, we used the 74 fully definitized delivery orders to determine the cost savings rate. The cost of the 74 delivery orders prior to definitization was $229.7 million. We divided the amount deobligated from the 74 delivery orders ($22.1 million[8]) by the cost (prior to definitization) of the

[7] Dollar amounts in parentheses represent negative amounts.
[8] See Table 1 in Appendix IV.

74 delivery orders ($229.7 million) to get a 9.6 percent savings rate. The savings rate was applied to the cost of the 62 undefinitized delivery orders ($180.5 million prior to definitization) to get a potential savings of $17.3 million. The $17.3 million was reduced by the $9.7 million[9] deobligated from partially definitized delivery orders, thus, resulting in approximately $7.6 million in potential savings from completing definitization.

[9] See Table 1 in Appendix IV.

Appendix V

Management's Response to the Draft Report

COMMISSIONER

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

RECEIVED
SEP 15 2000

September 15, 2000

MEMORANDUM FOR TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

FROM: for Charles O. Rossotti Bob Wenzel
Commissioner of Internal Revenue

SUBJECT: Management Response to Draft Audit Report – Actions to Correct Service Center Mainframe Consolidation Contract Administration Issues Have Not Been Completed, But Progress Is Being Made (Audit No. 200020041)

Thank you for the opportunity to review and comment on your draft report dated August 8, 2000, on the progress of contract administration issues on the consolidation of the service center mainframe computer operations to the computing centers. We agree with your recommendations and have taken the following actions, detailed in our attached management response, to implement them:

- Completed negotiation of the outstanding issues required to definitize (the parties fully define and reach agreement on the terms, conditions and prices for a contractual action) current and future orders for delivery.
- Implemented weekly reporting on actions that have not been definitized.
- Started definitizing (define and agree on the terms, conditions, and prices for a contractual action) all prior fiscal year delivery orders.
- Assigned Government Task Managers and defined detailed procedures to verify contractor work.

The report identifies $40.2 million as a measurable benefit for tax administration and $7.6 million potential cost savings if savings continue to occur at the same rate. While we do not disagree with the method used to develop either amount, we caution that the deobligated funds cited in the report are not necessarily cost savings but may have resulted from changed or decreased requirements, changes in delivery schedules or funding adjustments based on price negotiations. Further, we will be unable to validate the potential savings until the definitization process is completed.

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If you have any questions, please call Paul Cosgrave, Chief Information Officer, at (202) 622-6800 or a member of your staff may call David W. Junkins, Director, Office of Information Resources Management, at (202) 283-4060.

Attachment

cc: Associate Inspector General for Audit (Information Systems Programs)

Attachment

Management Response to Draft Audit Report – Actions to Correct Service Center Mainframe Consolidation Contract Administration Issues Have Not Been Completed, But Progress Is Being Made (Audit No. 200020041)

Identity of Recommendation #1

The Chief, Agency-Wide Shared Services, should ensure that all current delivery orders are completely definitized and future delivery orders are timely definitized.

Assessment of Cause

The process of definitizing[1] delivery orders has been more labor intensive and time consuming than Procurement personnel originally anticipated.

Before the Procurement organization began the definitization process, the Chief Information Officer (CIO) organization was required to reconcile the inventory of products delivered. This entailed physically counting each product received at the Tennessee Computing Center (TCC) and Martinsburg Computing Center (MCC) from June 1997 through May 1999. The CIO completed this effort in July 1999.

The Procurement organization began definitization, which involves the following steps, once the inventory was completely reconciled:

- Comparing inventory results for thousands of line items to each delivery order issued (hardware, software, maintenance, support services and training)
- Aligning the quantity received
- Aligning the maintenance start date
- Recalculating each line item
- Calculating the total value of the delivery order based on pre-negotiated prices

At the conclusion of negotiations, the IRS and the Contractor must officially agree to any recalculations (line item, quantity, and price) for each delivery order. After agreement is reached, the Contractor is authorized to submit billing for any funds due under each definitized delivery order.

[1] Definitize - The parties fully define and reach agreement on the terms, conditions and prices for a contractual action.

Attachment

Management Response to Draft Audit Report – Actions to Correct Service Center Mainframe Consolidation Contract Administration Issues Have Not Been Completed, But Progress is Being Made (Audit No. 200020041)

Corrective Actions

1a. The IRS has completed negotiation of outstanding issues. The Procurement organization has negotiated outstanding issues that required closure in order to complete definitization. This included third party software (and related maintenance) and training.

1b. The IRS has implemented weekly reporting of undefinitized actions. To ensure all delivery orders are definitized, the Director, Procurement, has implemented additional reporting of undefinitized actions. The Procurement organization continues to work closely with Information Systems to identify and evaluate requirements well in advance of the need for products and/or services. Further, the Procurement organization continues to work closely with the Contractor to ensure timely receipt of proposals required to finalize negotiations before issuing a delivery order.

1c. The IRS is finalizing all current and prior year delivery orders issued as undefinitized. The Procurement organization's number one priority is to definitize all prior year delivery orders. Procurement management is monitoring progress weekly.

Implementation Dates

1a. Completed: August 7, 2000

1b. Completed: August 10, 2000

1c. Proposed: October 1, 2000

Responsible Official

Director, Procurement A:P

Monitoring Plan for Corrective Actions

Results Indicator: Definitized delivery orders.

Validation Process: Weekly meetings to monitor the status of undefinitized actions.

Attachment

Management Response to Draft Audit Report – Actions to Correct Service Center Mainframe Consolidation Contract Administration Issues Have Not Been Completed, But Progress is Being Made (Audit No. 200020041)

Identity of Recommendation #2

The Chief Information Officer should provide the resources necessary to adequately verify the invoices for services.

Assessment of Cause

Since its beginning, the Service Center Mainframe Consolidation Project (SCMC) has acknowledged that verification of support services invoices has been a problem. It had effectively addressed the verification of contractor travel. However, the large amount of contractor support at many different locations, combined with an aggressive project schedule and limited staff resources, made it impossible to verify all contractor labor hours.

Corrective Actions

2a. IRS has established a process under which all SCMC contractor employee travel is pre-approved. Computing center staff pre-approves Projected Travel Reports for contractor personnel assigned or travelling to each center

2b. IRS formally designated 13 current staff members GTMs at locations where contractor labor is routinely deployed.

2c. IRS wrote procedures requiring each contractor employee to submit a weekly report to the GTMs documenting hours worked and the work performed. The GTMs validate the reports. The COTR uses this information to approve invoices. This validation method began in June 2000 and has worked well.

Implementation Dates

2a. Complete: March 2000

2b. Complete: June 2000

2c. Complete: June 2000

Attachment

Management Response to Draft Audit Report – Actions to Correct Service Center Mainframe Consolidation Contract Administration Issues Have Not Been Completed, But Progress is Being Made (Audit No. 200020041)

Responsible Official

Chief Information Officer IS
Deputy Chief Information officer (Operations) IS
Director Enterprise Operations IS:E

Monitoring Plan for Corrective Actions

Results Indicators – documented travel approvals/disapprovals
documented validation of contractor labor hours

Validation Process – monthly conference calls with all GTMs