



Treasury Inspector General for Tax Administration Office of Audit

CURRENT PRACTICES MIGHT BE PREVENTING USE OF THE MOST ADVANTAGEOUS CONTRACTUAL METHODS TO ACQUIRE GOODS AND SERVICES

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Highlights

Highlights of Report Number: 2009-10-037 to the Internal Revenue Service Deputy Commissioner for Operations Support.

IMPACT ON TAXPAYERS

Cost-reimbursement contracts, which reimburse contractors for all their costs, represent the highest monetary risk to the Federal Government. In our sample of 40 contracts, 33 were awarded on a cost-reimbursement basis. The Internal Revenue Service's (IRS) predisposition to use cost-reimbursement contracts could result in inefficient use or misuse of taxpayer funds.

WHY TIGTA DID THE AUDIT

The overall objective of this review was to determine whether the IRS is using the appropriate contract types, as prescribed in the Federal Acquisition Regulation, to accomplish its mission of tax administration.

WHAT TIGTA FOUND

Overall, the contract types used for the 40 sampled contracts were not improper based on the statements of work and Federal Acquisition Regulation definitions. However, the contract files often did not contain justification for the type of contract selected and little coordination or discussion regarding contract type occurred between program offices and the Office of Procurement Contracting Officers prior to submission of the statement of work. Instead, program offices selected the contract type they preferred and developed an applicable statement of work tailored to that particular contract type for submission to the Contracting Officer. Further, cost-reimbursement contracts were used routinely because that was the contract type originally awarded or used on the prior procurement request and little effort was made to convert follow-on work to less risky contract types.

In 2008, the IRS took some positive actions to reduce the use of cost-reimbursement contracts, including the use of hybrid contracts and the

Email Address: inquiries@tigta.treas.gov

Web Site: <http://www.tigta.gov>

establishment of a Contract Review Board that must review and approve all proposed modernization and information technology requisitions proposed as cost-reimbursement contracts for more than \$1 million. However, given the overall increased monetary risk to the Federal Government from cost-reimbursement contracts, strong measures must be in place to reduce the customary use of this contract type. As such, improved controls in three key areas related to the coordination and planning of the contract type prior to award could facilitate a better review and selection of the contract type.

WHAT TIGTA RECOMMENDED

The Director, Procurement, should ensure that Contracting Officers document the contract file with their detailed justification for awarding a cost-reimbursement contract and/or a contract that does not use Performance-Based Acquisition methods. The Deputy Commissioner for Operations Support and the Chief, Agency-Wide Shared Services, should establish and implement guidance that requires members of the acquisition team to meet and coordinate prior to writing the statement of work to ensure that the best value contract type can be negotiated. Finally, the Deputy Commissioner for Operations Support should require the program offices to routinely review contracts prior to the IRS exercising option years or recompeting the contracts for follow-on work, for the possibility of converting all or portions of the contracts to less risky contract types.

The IRS fully agreed with our first two recommendations and partially agreed with the third recommendation. The Office of Procurement Policy is developing templates for documenting contract type decisions and rationale when Performance-Based Acquisition methods are not used. The Deputy Commissioner for Operations Support has issued a memo emphasizing the use of the "7 Steps to Performance-Based Acquisition." In addition, the IRS plans to include a module entitled "Types of Work Statements, Appropriate Contract Types and Risk" in the annual Advance Acquisition Planning conference to emphasize the importance of the acquisition team selecting the appropriate contract type. Finally, IRS management agreed that contracts should be reviewed when recompeting for follow-on work to less risky contract types, but disagreed with changing the contract type at the time of exercising an option. The IRS plans to look for opportunities to use firm fixed-price contracts on an ongoing basis.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2009reports/200910037fr.pdf>.

Phone Number: 202-622-6500