



*The Modernization and Information  
Technology Services Organization's  
Competitive Sourcing Program Needs  
Improvement*

**January 16, 2008**

**Reference Number: 2008-20-028**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

January 16, 2008

**MEMORANDUM FOR CHIEF INFORMATION OFFICER**

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

**SUBJECT:** Final Audit Report – The Modernization and Information Technology Services Organization’s Competitive Sourcing Program Needs Improvement (Audit # 200720007)

This report presents the results of our review to determine the effectiveness and efficiency of the Modernization and Information Technology Services (MITS) organization in supporting the competitive sourcing program and whether the competitive sourcing initiatives yielded positive and measurable results. This review was part of the Treasury Inspector General for Tax Administration Fiscal Year 2007 Annual Audit Plan coverage.

*Impact on the Taxpayer*

The Internal Revenue Service (IRS) implemented a redesigned Campus Operations organization (a competitive sourcing initiative) as a result of winning a competition with private industry for its work.<sup>1</sup> However, the redesigned Campus Operations organization is not fully complying with operational performance standards and actual costs and savings are not being determined and reported. As a result, the IRS cannot assure taxpayers that the redesigned Campus Operations organization efficiently uses resources and fully achieves the expected benefits and savings from the competition of its work.

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<sup>1</sup> The work performed by the Campus Operations organization includes print scheduling, print operations, file transmissions, data processing support, and magnetic media management at the 10 IRS Campus locations. See Appendix VII for a Glossary of Terms.



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*Synopsis*

The Competitive Sourcing Initiative is one of the five Governmentwide initiatives in the President's Management Agenda for improving the management and performance of the Federal Government. The goal of this Initiative is to achieve efficient and effective competition between public and private sources. The Office of Management and Budget (OMB) Circular Number A-76, *Performance of Commercial Activities* (OMB A-76), dated May 2003, requires agencies to identify commercial activities that are performed by Federal Government personnel and determine which of the commercial activities are suitable for competition. Competitive sourcing is the process for determining whether a commercial activity will be performed by a public or private source. The IRS established the Office of Competitive Sourcing in the Agency-Wide Shared Services organization with responsibility for IRS program policy, guidance, and reporting.

On October 1, 2005, the IRS implemented a redesigned Campus Operations organization as a result of winning a competition with private industry for its work. In addition to competing the work performed by the Campus Operations organization, the MITS organization has implemented several internal improvement initiatives (e.g., Business Process Improvement and Business Process Reengineering) as alternatives to competing commercial activities.

The MITS organization Office of Strategic Sourcing effectively served in an advisory and consulting role. The Government Program Management Office prepared useful and detailed reports on the results of its review of the redesigned Campus Operations organization's compliance with the operational performance standards. In addition, the Tax Processing Operations Support Project Manager worked with IRS business unit employees and the Campus Operations organization managers to resolve problems.

We also found that estimated and actual financial savings and nonfinancial benefits attributed to the redesigned Campus Operations organization were reported externally, but the IRS did not have the documentation to support the figures. In addition, the MITS organization had not identified the savings and benefits and was unaware of the financial savings that were reported.

Estimated and actual costs for the redesigned Campus Operations organization were not consistently reported by organizations within the MITS organization, although each organization obtained the data from the Integrated Financial System. The reported estimated costs were also not consistent with amounts presented in the Standard Competition Form (i.e., form documenting all costs) or the Letter of Obligation (i.e., formal agreement). As a result, the IRS cannot

***The MITS organization continues to identify initiatives to improve operational efficiency. However, the redesigned Campus Operations organization's estimated and actual financial savings and nonfinancial benefits externally reported were not supported by documentation, performance standards were not met, and actual costs exceeded estimated costs.***



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accurately compute cost savings/overruns and other benefits and effectively evaluate compliance with the Letter of Obligation.

The redesigned Campus Operations organization has not met the operational performance standards and has exceeded the budget in the Letter of Obligation. The staff and cost estimates related to the print work to be performed by the redesigned Campus Operations organization were based on printing up to 11 files per campus. However, the IRS business units rejected the proposal to reduce the number of printed files to 11 files per campus and required the continued printing of more than 300 additional files not included in the Letter of Obligation. This increased the workload and, consequently, increased operational costs.

Our review of the Government Program Management Office reports determined the number of errors made by the redesigned Campus Operations organization employees had generally declined, but the rate of noncompliance with operational performance standards shows minimal improvement. In addition, our review of the actual costs received from the Chief Financial Officer determined the redesigned Campus Operations organization exceeded the estimated costs in the Letter of Obligation for Fiscal Year 2006 by \$607,587 (11 percent). As a result of continuing to print the more than 300 additional files, future fiscal year costs might exceed the estimated costs in the Letter of Obligation.

### *Recommendations*

The Chief Information Officer should ensure all MITS organizations consistently identify the actual costs, determine the source for the estimated costs to be entered into the Integrated Financial System, and assure consistent data pull for external reporting purposes; work with the Chief, Agency-Wide Shared Services, to assign responsibility for comparing actual costs to the baseline, the Standard Competition Form, and the Letter of Obligation; and work with the Chief, Agency-Wide Shared Services, and the Chief Financial Officer to ensure the MITS organization reviews the savings and benefits for accuracy and concurs with the information to be reported externally. The Chief Information Officer should also provide additional training for employees with unsatisfactory performance and/or take appropriate personnel actions to ensure the redesigned Campus Operations organization complies with the performance standards; continue to work with the business units to reduce the number of files printed and obtain agreement on a schedule for converting the remaining print files to electronic files for online viewing; work with the Director, Procurement, to determine what actions should be taken if the performance standards continue to be unmet and/or the actual costs continue to exceed the estimated costs in the Letter of Obligation; and ensure future Most Efficient Organization proposals meet the IRS business units' requirements by implementing suggestions from the lessons learned document and obtain a requirements agreement from the customers.



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*Response*

IRS management agreed with our recommendations. Planned corrective actions include developing a process to ensure consistent and accurate identification of actual costs and determination of the source of estimated costs to be entered into the Integrated Financial System; establishing a distinct functional area code in the Integrated Financial System to monitor and report costs; ensuring MITS organizations validate and compare financial data with the baseline, the Standard Competition Form, and the Letter of Obligation; ensuring all appropriate offices validate financial data using consistent criteria; developing and delivering a training curriculum of basic and refresher courses to address the needs of all employees and/or taking appropriate personnel actions; working with the business units using the Service Level Agreement to categorize those files that demand hardcopy printouts and obtaining agreement on a plan and schedule for converting the remaining print files to electronic files for online viewing; developing a plan of required actions to address unmet performance standards and/or actual costs exceeding estimated costs in the Letter of Obligation; and developing a repeatable process that includes a Memorandum of Understanding with a requirements agreement from the affected business units and suggestions from the *Lessons Learned for the Modernization and Information Technology Services Campus Operations A-76 Study*. Management's complete response to the draft report is included as Appendix VIII.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs), at (202) 622-8510.



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*Abbreviations*

IRS	Internal Revenue Service
MITS	Modernization and Information Technology Services
OMB	Office of Management and Budget



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## *Background*

The Competitive Sourcing Initiative is one of the five Governmentwide initiatives in the President's Management Agenda for improving the management and performance of the Federal Government. The goal of this Initiative is to achieve efficient and effective competition between public and private sources. The Office of Management and Budget (OMB) Circular Number A-76, *Performance of Commercial Activities* (OMB A-76), dated May 2003, requires agencies to identify commercial activities<sup>1</sup> that are performed by Federal Government personnel and determine which of the commercial activities are suitable for competition. Competitive sourcing is the process for determining whether a commercial activity will be performed by a public or private source. The Internal Revenue Service (IRS) established the Office of Competitive Sourcing in the Agency-Wide Shared Services organization with responsibility for IRS program policy, guidance, and reporting.

The IRS implemented a redesigned Campus Operations organization (known as the Integrated Document Solutions Enterprise Most Efficient Organization) on October 1, 2005, as a result of winning a competition with private industry for its work.<sup>2</sup> The Modernization and Information Technology Services (MITS) organization established the MITS Office of Strategic Sourcing (merged into the Strategic Planning and Performance Management Division on February 25, 2007) to monitor performance of its OMB A-76 competitive sourcing projects, provide support to internal improvement initiatives, and work on ad hoc assignments in support of the Office of Competitive Sourcing and the Chief Information Officer. The Government Program Management Office was established to perform quality assurance surveillance of the MITS organization competitive sourcing projects. The redesigned Campus Operations organization is located in the Tax Processing Operations Support function under the MITS organization End User Equipment and Services organization. Figure 1 presents an organization chart of functions overseeing the redesigned Campus Operations organization.

***Competitive sourcing is the process for determining whether a commercial activity will be performed by a public or private source.***

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<sup>1</sup> See Appendix VII for a Glossary of Terms.

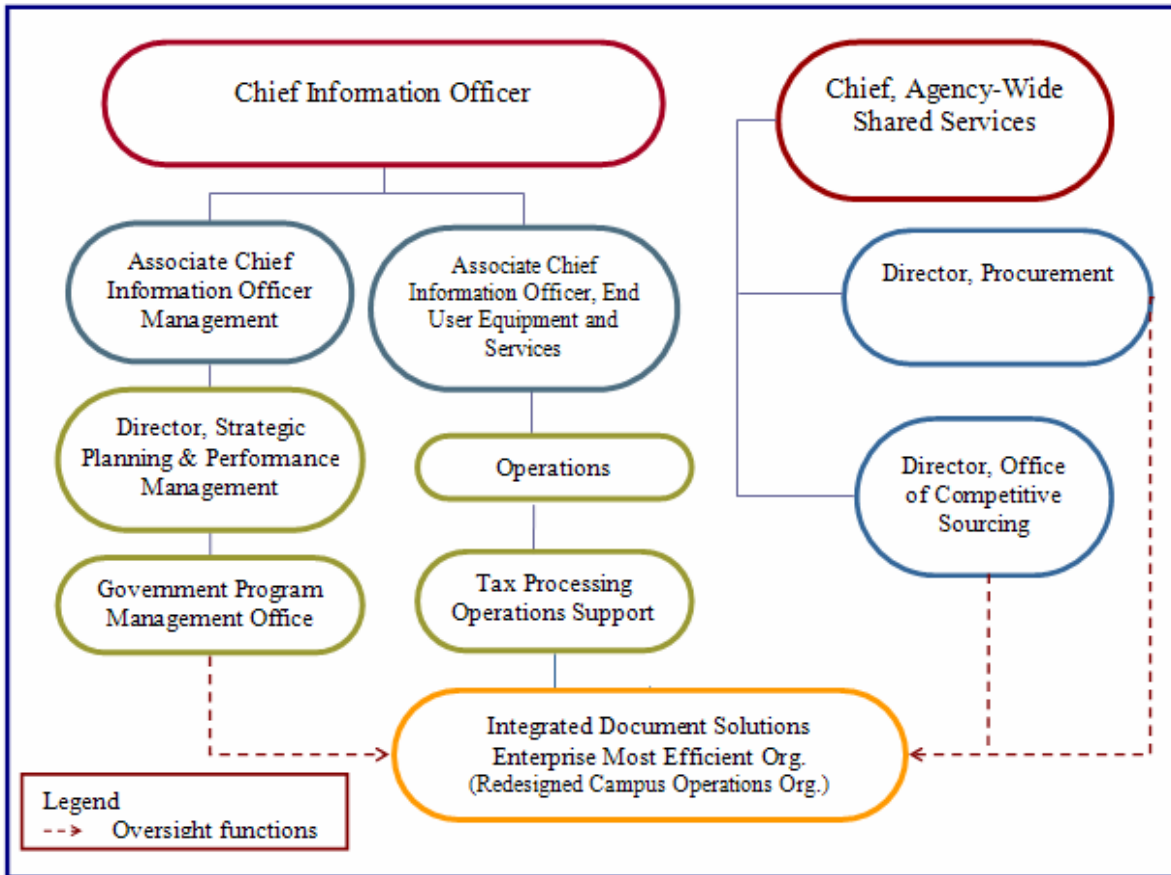
<sup>2</sup> The work performed by the Campus Operations organization includes print scheduling, print operations, file transmissions, data processing support, and magnetic media management at the 10 IRS Campus locations.





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Figure 1: Oversight of the Redesigned Campus Operations Organization



Source: IRS organization charts from the IRS web site as of August 15, 2007.

This review was performed at the IRS National Headquarters in Washington, D.C., in the Office of Competitive Sourcing and MITS organization offices in New Carrollton, Maryland, and Memphis, Tennessee, during the period January through September 2007. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This review was part of the Treasury Inspector General for Tax Administration Fiscal Year 2007 Annual Audit Plan coverage under the major management challenge of Using Performance and Financial Information for Program and Budget Decisions. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



## *Results of Review*

### ***The Modernization and Information Technology Services Organization Continues to Identify and Support Initiatives to Improve Operational Efficiency***

OMB A-76 establishes Federal policy and requires agencies to identify commercial activities that are performed by Federal Government personnel and determine which of the commercial activities are suitable for competition. To hold agencies accountable for competition results, the following activities must be performed:

- Monitor performance for all performance periods stated in the solicitation.
- Implement the quality assurance surveillance plan.
- Retain the solicitation and any other documentation from the streamlined or standard competition as part of the competition file.
- Maintain the currency of the contract file, consistent with the Federal Acquisition Regulation.
- Record the actual cost of performance by performance period.
- Monitor, collect, and report performance information so it will be available for performance evaluation purposes in a follow-on streamlined or standard competition. Also, the agency shall compare the actual costs to the costs recorded on the Standard Competition Form when the performance decision was made.

The Clinger-Cohen Act of 1996<sup>3</sup> states the Chief Information Officer is responsible for promoting the effective and efficient design and operation of all major information resources management processes for the executive agency.

As part of the MITS Improvement Strategy and Plan, the MITS organization identified the Campus Operations area for competitive sourcing under the OMB A-76 process. Campus Operations is the only MITS organization commercial activity competed under the OMB A-76 competitive sourcing process. On August 5, 2004, the IRS awarded a Letter of Obligation

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<sup>3</sup> Federal Acquisition Reform Act of 1996 (Information Technology Management Reform Act of 1996), Pub. L. No. 104-106, 110 Stat. 642 (codified in scattered sections of 5 U.S.C., 5 U.S.C. app., 10 U.S.C., 15 U.S.C., 16 U.S.C., 18 U.S.C., 22 U.S.C., 28 U.S.C., 29 U.S.C., 31 U.S.C., 38 U.S.C., 40 U.S.C., 41 U.S.C., 42 U.S.C., 44 U.S.C., 49 U.S.C., 50 U.S.C.).



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(i.e., formal agreement), and the redesigned Campus Operations organization was fully operational on October 1, 2005. In addition, the MITS organization prepared a lessons learned document of items to be considered during future competitions. Examples of the lessons learned were to:

- Ensure the proposal meets business units' requirements.
- Ensure the accuracy of new employee Position Descriptions and grade levels.
- Never underestimate the impact or length of time needed to implement new technological solutions.

In addition to competing the work performed by the Campus Operations organization and as part of the MITS Improvement Strategy and Plan, the MITS organization has implemented internal improvement initiatives (e.g., Business Process Improvement, Business Process Reengineering, and Competency Based Organization) as alternatives to competing commercial activities. We did not review the internal improvement initiatives indepth because the initiatives are currently under development and have not reported measurable results, or the initiatives will be considered in another audit. Appendix VI provides a brief discussion of the MITS organization internal improvement initiatives.

MITS organization Office of Strategic Sourcing personnel effectively served in advisory and consulting roles as facilitators, coordinators, initiative progress monitors, and resource points of contact for the internal improvement initiatives.

***The MITS organization identified several areas for internal improvement initiatives and the Office of Strategic Sourcing personnel effectively served in advisory and consulting roles.***

The Government Program Management Office prepared useful and detailed reports on the results of its review of the redesigned Campus Operations organization compliance with the operational performance standards. In addition, the Tax Processing Operations Support Project Manager worked with IRS business unit employees and the Campus Operations organization managers to resolve problems.

### ***Identification and Reporting of Costs and Savings From the Redesigned Campus Operations Program Needs to Be Improved***

OMB A-76 states that the Competitive Sourcing Official shall identify savings resulting from completed streamlined and standard competitions in accordance with OMB Circular Number A-11, *Preparation, Submission, and Execution of the Budget*, dated June 2006. As stated previously, agencies are responsible for performing post-competition accountability activities. Also, an activity's baseline costs are the costs as performed by the incumbent service provider and are compared to actual costs to compute savings.



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The Consolidated Appropriations Act of 2004 Section 647(b)<sup>4</sup> (hereafter, referred to as the Competitive Sourcing Annual Report) requires the head of each executive agency to annually submit to Congress a report on competitive sourcing activities not later than December 31. The report should contain nine items, including the total number of the Federal employees (expressed as Full-Time Equivalents) studied under completed competitions; the incremental cost directly attributable to conducting the competitions, including costs attributable to paying outside consultants and contractors; an estimate of the total anticipated savings, or a quantifiable description of improvements in service or performance, derived from completed competitions; and actual savings, or a quantifiable description of improvements in service or performance, derived from the implementation of competitions completed after May 29, 2003. The OMB requires agencies to use the Competitive Sourcing Activities Worksheet to report financial and nonfinancial benefits information required by the Competitive Sourcing Annual Report requirements.

The Federal Managers' Financial Integrity Act of 1982<sup>5</sup> requires that revenues and expenditures applicable to agency operations be properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Our review of the Competitive Sourcing Activities Worksheets and supporting documentation for Fiscal Years 2005 and 2006 determined the estimated and actual financial savings and nonfinancial benefits attributed to the redesigned Campus Operations organization have been reported externally, but the IRS did not have documentation to support the following items:

***The estimated and actual financial savings and nonfinancial benefits reported to Congress and the OMB were not supported by documentation, and costs were not consistently reported. As a result, the IRS cannot accurately compute cost savings/overruns and other benefits and effectively evaluate compliance with the Letter of Obligation.***

- A decrease of 100 million printed pages for Fiscal Year 2006 reported in the OMB *Report on Competitive Sourcing Results Fiscal Year 2006*.
- Expected cost savings of \$2,472,000 from the redesigned Campus Operations organization in Fiscal Year 2007 reported in IRS *Fiscal Year 2007 Congressional Budget Submission*.
- Estimated savings of \$75 million (\$15 million per year for 5 years) reported on the Fiscal Years 2005 and 2006 worksheets prepared in compliance with the Competitive Sourcing Activity Annual Report requirements.

<sup>4</sup> Pub. L. No. 108-199, 118 Stat. 3, Section 647(b) (2004).

<sup>5</sup> 31 U.S.C. Sections 1105, 1113, 3512 (2000).



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Therefore, we were unable to verify the reliability of the cost/benefit information attributed to the redesigned Campus Operations organization and reported externally (see Appendix IV). While the savings and benefits were attributed to the redesigned Campus Operations organization, the MITS organization had not identified and was unaware of the reported financial savings and benefits.

Our review of the estimated and actual costs for the redesigned Campus Operations organization determined the costs were not consistently reported by the MITS and Chief Financial Officer organizations. For example:

- The MITS organization End User Equipment and Services Strategic Planning and Finance organization reported \$1,047,994 as actual costs for Fiscal Year 2005, but the Chief Financial Officer organization reported \$15,279,659.
- The Tax Processing Operations Support organization reported the Fiscal Year 2006 budget as \$7,853,528, but the Chief Financial Officer organization reported \$5,752,125 and the Letter of Obligation shows \$5,699,063.

The deficiencies above occurred because there are no policies and procedures in place that require the MITS organization to:

- Identify the cost savings and benefits that the redesigned Campus Operations organization is expected to achieve.
- Provide the data needed by the Office of Competitive Sourcing to compute cost savings and other benefits for reporting to the OMB.
- Verify the cost savings and benefits that will be reported outside of the IRS.
- Compare the actual costs to the estimated costs.

Without consistent and supported performance and financial data, the IRS cannot accurately compute cost savings/overruns and other benefits, effectively evaluate the redesigned Campus Operations organization's compliance with the Letter of Obligation, or make fully informed decisions regarding funding and the extension of option years.

To address the inconsistency in the reporting of the redesigned Campus Operations organization costs, the IRS decided the Chief Financial Officer organization will work with the MITS organization and the Office of Competitive Sourcing to collect the data needed to determine cost savings that will be reported externally.

In addition, on April 13, 2007, the OMB required agencies to perform validations that should, at a minimum (1) assess the completeness and accuracy of cost and performance data and (2) evaluate the effectiveness of post-competition management actions. This should be completed by September 2008. The Office of Program Evaluation and Risk Analysis will perform this validation for the IRS.



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## **Recommendations**

The Chief Information Officer should:

**Recommendation 1:** Ensure all MITS organizations consistently identify the actual costs, determine the source for the estimated costs to be entered into the Integrated Financial System (i.e., should they come from the Standard Competition Form, Letter of Obligation, modifications to the Letter of Obligation, or some other source), and notify the Chief, Agency-Wide Shared Services, and the Chief Financial Officer of the input into the Integrated Financial System to assure consistent data pull for external reporting purposes.

**Management's Response:** IRS management agreed with this recommendation and will develop a process to ensure consistent and accurate identification of actual costs and determination of the source of estimated costs to be entered into the Integrated Financial System. For external reporting purposes and to assure consistent data pulls, the Director, Financial Management Services, will establish a distinct functional area code in the Integrated Financial System to monitor and report costs associated with Competitive Sourcing initiatives and instruct the MITS and Chief Financial Officer organizations and the Office of Competitive Sourcing on its use.

**Recommendation 2:** Work with the Chief, Agency-Wide Shared Services, to assign responsibility for comparing actual costs to the baseline, the Standard Competition Form, and the Letter of Obligation to determine whether estimated savings are realized and actual costs exceeded estimated costs.

**Management's Response:** IRS management agreed with this recommendation and will ensure each MITS organization office validates the financial data and conducts comparisons with the baseline, the Standard Competition Form, and the Letter of Obligation. To ensure a comprehensive review process, management will examine policies and procedures to ensure all MITS organization offices validate financial data using consistent criteria.

**Recommendation 3:** Work with the Chief, Agency-Wide Shared Services and the Chief Financial Officer to ensure the MITS organization reviews the savings and benefits for accuracy and concurs with the information to be reported externally.

**Management's Response:** IRS management agreed with this recommendation and will review policies and procedures and make any necessary adjustments to ensure all appropriate offices validate financial data using consistent criteria.





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***The Redesigned Campus Operations Organization Has Not Met the Operational Performance Standards and Has Exceeded the Budget in the Letter of Obligation***

OMB Circular Number A-123, *Management Accountability and Control*, dated June 21, 1995, states that controls are the organization, policies, and procedures used to reasonably ensure (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported, and used for decision making.

The Associate Chief Information Officer, End User Equipment and Services, is responsible for the redesigned Campus Operations organization implementation and performance of work under the Letter of Obligation. These responsibilities include ensuring:

- All work satisfies the quality and timeliness standards.
- Compliance with the funding limitations projected for the delivery of services.
- Proposed costs are recorded in the appropriate budget documents.

OMB A-76 states that the Contracting Officer is responsible for notifying a service provider of poor performance and determining whether the service provider has failed to the extent that a termination is justified. The Letter of Obligation states that the Contracting Officer's Technical Representative is responsible for conducting inspections of the work performed by the service provider to ensure compliance with the terms and conditions of the Letter of Obligation.

The Quality Assurance Surveillance Plan states that the Government Program Management Office performs surveillance activities to determine whether the redesigned Campus Operations organization work is satisfactory and is meeting 30 performance standards established in the Letter of Obligation. The Government Program Management Office uses four types of surveillance methods to identify errors and evaluate the work of the redesigned Campus Operations organization: (1) Planned Sampling, (2) Random Sampling, (3) 100 percent Inspection, and (4) Customer Complaints. The method selected to review the work is based on several factors such as population size, relative work importance, service times, and remote or onsite surveillance.

***The number of performance errors has generally declined, but the rate of compliance with operational performance standards shows minimal improvement. Also, in Fiscal Year 2006 actual costs exceeded the estimated costs and there is an increased risk that future costs will exceed the estimated costs.***

IRS management stated that prior to implementing the redesigned Campus Operations organization approximately 1,100 files were printed. The staff and cost estimates related to the



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print work to be performed by the redesigned Campus Operations organization were based on printing up to 11 files per campus. The IRS business units rejected the redesigned Campus Operations organization proposal to reduce the number of printed files to 11 files per campus. Therefore, the redesigned Campus Operations organization had to continue printing more than 300 additional files not included in the Letter of Obligation. This increased the workload and, consequently, presented performance problems and increased operational costs.

Our review of the Government Program Management Office reports determined the number of errors made by the redesigned Campus Operations organization employees had generally declined during Fiscal Years 2006 and 2007 (through the 3<sup>rd</sup> Quarter). Over the last 7 fiscal year quarters, 63 percent of the errors occurred at the Cincinnati and Kansas City Campuses and the Quality Support Center. Figure 2 provides a summary of the performance errors. For the purposes of this report, the total population was determined by combining the number of items that could be reviewed under each of the surveillance methods. However, due to several surveillance methods being used and some items being reviewed more than once (i.e., to assess multiple performance standards), the total population and the number of errors cannot be used to calculate an overall error rate, because it would not reflect the true results of the various surveillance methods.





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**Figure 2: Summary of the Redesigned Campus Operations  
Performance Errors**

	Total Population	Number of Errors	Number and Percentage of Errors at the Cincinnati and Kansas City Campuses and the Quality Support Center
<b>Fiscal Year 2006</b>			
<b>1<sup>st</sup> Quarter</b>	170,955	1,108	772 (70%)
<b>2nd Quarter</b>	181,736	650	335 (52%)
<b>3<sup>rd</sup> Quarter</b>	196,864	481	233 (48%)
<b>4<sup>th</sup> Quarter</b>	182,279	931	533 (57%)
<b>Fiscal Year 2006 Totals</b>	731,834	3,170	1,873 (59%)
<b>Fiscal Year 2007</b>			
<b>1<sup>st</sup> Quarter</b>	178,531	560	422 (75%)
<b>2nd Quarter</b>	174,986	613	468 (76%)
<b>3<sup>rd</sup> Quarter</b>	176,550	292	160 (55%)
<b>Fiscal Year 2007 Totals (through 3<sup>rd</sup> Quarter)</b>	530,067	1,465	1,050 (72%)
<b>Fiscal Years 2006 and 2007 (through 3<sup>rd</sup> Quarter)</b>			
<b>Fiscal Years 2006 and 2007 (through 3<sup>rd</sup> Quarter) Totals</b>	1,261,901	4,635	2,923 (63%)

*Source: Government Program Management Office.*

While the number of performance errors has generally declined, the rate of compliance with operational performance standards shows minimal improvement. In Fiscal Year 2006, the redesigned Campus Operations organization passed 52 percent and failed 48 percent of the operational performance standards. For the 3 quarters of Fiscal Year 2007 (October 2006 – June 2007), the redesigned Campus Operations organization passed 56 percent and failed 44 percent of the operational performance standards. Although there was some improvement, in our opinion the pass rate is not an indication of satisfactory performance. Appendix V presents a summary of the performance results.



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IRS management stated that the unsatisfactory performance was due to insufficient staffing, inadequately trained staff, and hardware problems. To improve performance, the redesigned Campus Operations organization Project Manager implemented a managerial review process that involves meeting with the employees to discuss the errors they made and how to avoid repeating them.

In our opinion, performance problems also occurred because the IRS incorrectly assumed the redesigned Campus Operations organization positions would be filled with incumbent employees who had the skills needed to perform the work. In addition, the IRS shared with the business unit representatives that the redesigned Campus Operations organization solution would provide online delivery of data in lieu of printed material but did not share the magnitude of cuts being considered (i.e., the reduction to 11 print files at each campus). Due to the business units' rejection of the solution, the redesigned Campus Operations organization had to print significantly more files than originally planned. The additional workload contributed to performance problems such as untimely printing and/or delivery of printed reports.

Our review of the actual costs received from the Chief Financial Officer organization determined that the redesigned Campus Operations organization exceeded the estimated costs in the Letter of Obligation and the Standard Competition Form for Fiscal Year 2006 by \$607,587 (11 percent). Some of the cost overruns were attributed to personnel and supplies expenditures. The cost overruns occurred because the redesigned Campus Operations organization was required to print the 300 additional files. In addition, the cost overruns would have been higher if the redesigned Campus Operations organization had not planned for additional expenditures (i.e., to print more than the planned 11 files) due to a gradual migration from the approximately 1,100 printed files to online viewing during Fiscal Year 2006. However, the costs of continuing to print the additional 300 files are not included in the estimated future costs, which increases the risk that the redesigned Campus Operations organization will continue to incur cost overruns if the number of printed reports are not reduced to the 11 files per campus.

The redesigned Campus Operations organization has taken action to further reduce the number of printed files by surveying and meeting with the business units to identify files that will no longer require printing. Once an agreement is reached on the files that will be printed, a new service level agreement will include this information.

Without adequate and sufficiently trained staff, redesigning the Campus Operations organization to fully meet the operational performance standards will be difficult. Also, continuing to print more than 300 additional files increases the risk that future fiscal year costs will exceed the estimated costs in the Letter of Obligation.



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## **Recommendations**

The Chief Information Officer should:

**Recommendation 4:** Provide additional training for employees with unsatisfactory performance and/or take appropriate personnel actions to ensure the redesigned Campus Operations organization complies with the performance standards in the Letter of Obligation.

**Management's Response:** IRS management agreed with this recommendation and will develop a standard training curriculum of basic and refresher courses that will address the needs of all employees, including needs-based corrective training for those employees who receive unsatisfactory performance evaluations. Management will also deliver the appropriate training based on a needs assessment to train new employees, develop skills, and address skills deficiencies and/or take appropriate personnel actions.

**Recommendation 5:** Continue to work with the business units to reduce the number of files printed and obtain agreement on a schedule for converting the remaining print files to electronic files for online viewing to ensure the redesigned Campus Operations organization actual costs are within the Letter of Obligation and Standard Competition Form cost estimates.

**Management's Response:** IRS management agreed with this recommendation and will continue to work with the business units using the Service Level Agreement to categorize those files that demand hardcopy printouts. Management will meet with the business units to obtain agreement on a plan and schedule for converting the remaining print files to electronic files for online viewing.

**Recommendation 6:** Work with the Director, Procurement, to determine what actions should be taken (e.g., recompeting the redesigned Campus Operations organization work), if the performance standards continue to be unmet and/or the actual costs continue to exceed the estimated costs in the Letter of Obligation.

**Management's Response:** IRS management agreed with this recommendation and will develop a plan of required actions to address unmet performance standards and/or actual costs exceeding estimated costs in the Letter of Obligation.

**Recommendation 7:** Ensure future Most Efficient Organization proposals meet the IRS business units' requirements by implementing suggestions from the lessons learned document and obtain a requirements agreement from the customers.

**Management's Response:** IRS management agreed with this recommendation and will develop a repeatable process that includes a Memorandum of Understanding with a requirements agreement from the affected business units. Management will consider suggestions from the *Lessons Learned for the Modernization and Information Technology Services Campus Operations A-76 Study* as they develop the process.



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## Appendix I

### *Detailed Objectives, Scope, and Methodology*

The overall objectives of this audit were to determine the effectiveness and efficiency of the MITS organization in supporting the competitive sourcing program and determine whether the competitive sourcing initiatives yielded positive and measurable results. To accomplish our objectives, we:

- I. Evaluated the effectiveness and efficiency of the MITS organization Office of Strategic Sourcing in supporting and monitoring OMB Circular Number A-76, *Performance of Commercial Activities* (OMB A-76), dated May 2003, and alternative OMB A-76 initiatives.
  - A. Reviewed the policies and procedures for competitive sourcing governing monitoring, tracking, and reporting progress, performance, and costs. We interviewed IRS personnel and compared IRS procedures to OMB A-76 requirements and other guidance. We also determined whether the roles and responsibilities of the MITS organization Office of Strategic Sourcing personnel changed when the organization merged into the Strategic Planning and Performance Management Division.
  - B. Interviewed MITS organization Office of Strategic Sourcing personnel to determine the process to ensure MITS organization alternative OMB A-76 initiatives achieve High Performing Organization<sup>1</sup> status. We also interviewed IRS personnel to determine the status of the initiatives and the value of the support provided by MITS organization Office of Strategic Sourcing personnel. We also determined whether there was any duplication of duties between the Office of Competitive Sourcing and the MITS organization Office of Strategic Sourcing.
  - C. Determined whether the Government Program Management Office effectively and efficiently monitored the redesigned Campus Operations organization and reported the results. We reviewed the Quality Assurance Surveillance Plan, the performance standards in the Letter of Obligation, monthly and quarterly surveillance reports, surveys, logs, checklists, and meeting minutes.
  - D. Researched to identify competitive sourcing best practices and lessons learned from other Department of the Treasury bureaus and Federal Government agencies.

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<sup>1</sup> See Appendix VII for a Glossary of Terms.



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- II. Assessed the effectiveness of the redesigned Campus Operations organization implementation.
  - A. Compared the Letter of Obligation's estimated costs and print volume to the actual redesigned Campus Operations organization's costs and print volume and to the former Campus Operations organization costs and print volume.
  - B. Determined the redesigned Campus Operations organization effectiveness in monitoring implementation progress, performance, and costs. We reviewed problem reports and budget reports. We also met with management to determine how risks are tracked, why problems are recurring, and the actions taken to reconcile the identified cost discrepancies.
  - C. Interviewed Office of Procurement personnel to determine their process to monitor and enforce the redesigned Campus Operations organization Letter of Obligation and how cost overruns, savings, and benefits were computed and reported.
- III. Reviewed the identification and reporting of measurable results for the redesigned Campus Operations organization and alternative OMB A-76 initiatives.
  - A. Interviewed appropriate personnel and reviewed documents to determine what benefits and savings were reported and to whom the information was submitted.
  - B. Determined how the benefits and savings were computed and identified.
  - C. Validated the reported savings and benefits from the implemented initiatives.
- IV. Validated data used.
  - A. Used the Treasury Integrated Management Information System, which has IRS personnel and payroll data, to determine the current number of redesigned Campus Operations organization employees. We obtained the data from the Treasury Inspector General for Tax Administration Data Center Warehouse. Treasury Inspector General for Tax Administration Office of Information Technology validated the data using run-to-run balancing. We also validated the data by comparing a sample of employee records to the data in the IRS employee directory and found the Treasury Integrated Management Information System data to be sufficiently reliable.
  - B. Obtained data from the Integrated Financial System for Fiscal Years 2005 and 2006 regarding the redesigned Campus Operations organization costs. We relied on the Government Accountability Office's assessment of the reliability of the computer-processed data from the Integrated Financial System. During a review of the IRS' financial statements,<sup>2</sup> the Government Accountability Office concluded the

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<sup>2</sup> *Financial Audit: IRS's Fiscal Years 2006 and 2005 Financial Statements* (GAO-07-136, dated November 2006).



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expense and reimbursable revenue information processed through the Integrated Financial System for Fiscal Years 2005 and 2006 was reliable in all material respects.



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## **Appendix II**

### *Major Contributors to This Report*

Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs)  
Gary Hinkle, Director  
Danny Verneuille, Audit Manager  
Tina Wong, Lead Auditor  
Paul Mitchell, Senior Auditor  
Olivia DeBerry, Auditor  
Linda Screws, Auditor



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## **Appendix III**

### *Report Distribution List*

Acting Commissioner C  
Office of the Commissioner – Attn: Acting Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Chief, Agency-Wide Shared Services OS:A  
Deputy Chief Information Officer OS:CIO  
Director, Procurement OS:A:P  
Associate Chief Information Officer, Applications Development OS:CIO:AD  
Associate Chief Information Officer, End User Equipment and Services OS:CIO:EU  
Associate Chief Information Officer, Enterprise Networks OS:CIO:EN  
Associate Chief Information Officer, Enterprise Operations OS:CIO:EO  
Associate Chief Information Officer, Management OS:CIO:M  
Director, Stakeholder Management OS:CIO:SM  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
    Deputy Commissioner for Operations Support OS  
    Chief, Agency-Wide Shared Services OS:A  
    Director, Procurement OS:A:P  
    Associate Chief Information Officer, Applications Development OS:CIO:AD  
    Associate Chief Information Officer, End User Equipment and Services OS:CIO:EU  
    Associate Chief Information Officer, Enterprise Networks OS:CIO:EN  
    Associate Chief Information Officer, Enterprise Operations OS:CIO:EO  
    Associate Chief Information Officer, Management OS:CIO:M  
    Director, Program Oversight Office OS:CIO:SM:PO





## 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 Congress.

#### **Type and Value of Outcome Measure:**

- Reliability of Information – Actual; 100 million printed pages (see page 4).

#### **Methodology Used to Measure the Reported Benefit:**

The IRS reported to the OMB “. . . in-house printing needs for tax-related data and processing was reduced by almost 100 million pages (25 percent) in 1 year through improvements to on-line viewing capabilities.” The OMB reported this in its *Report on Competitive Sourcing Results Fiscal Year 2006*. We requested documentation from the IRS to support the actual print reduction but the IRS was unable to provide it. Thus, we were unable to validate the print reduction.

#### **Type and Value of Outcome Measure:**

- Reliability of Information – Actual; \$75 million savings (\$15 million per year for 5 years) (see page 4).

#### **Methodology Used to Measure the Reported Benefit:**

Competitive Sourcing Annual Report guidance requires agencies to annually prepare and submit to Congress a report on their competitive sourcing activities by December 31. Examples of information required by the Competitive Sourcing Annual Report are the total number of the Federal employees studied under completed competitions; an estimate of the total anticipated savings, or a quantifiable description of improvements in service or performance, derived from completed competitions; and actual savings, or a quantifiable description of improvements in service or performance, derived from the implementation of competitions completed after May 29, 2003. Agencies are required to use the Competitive Sourcing Activities Worksheet to report Competitive Sourcing Annual Report information.

On the Fiscal Years 2005 and 2006 Competitive Sourcing Activities Worksheets, the IRS reported an estimated savings of \$75 million (\$15 million per year for 5 years). We interviewed IRS personnel from several functions and requested documentation to support the estimated



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savings. However, the IRS was unable to provide any documentation or explanations on how the estimated savings were determined. Thus, we were unable to validate the estimated savings.

**Type and Value of Outcome Measure:**

- Reliability of Information – Actual; \$2,472,000 (see page 4).

**Methodology Used to Measure the Reported Benefit:**

The IRS Fiscal Year 2007 Congressional Budget Submission reported expected cost savings of \$2,472,000 from the redesigned Campus<sup>1</sup> Operations organization in Fiscal Year 2007. The IRS explained how it obtained the information used to compute the estimated savings. However, it was unable to provide the documentation. As a result, we were unable to validate the \$2,472,000 expected cost savings.

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<sup>1</sup> See Appendix VII for a Glossary of Terms.



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**Appendix V**

*Summary of the Redesigned Campus Operations  
Performance Results*

	Number of Standards Evaluated <sup>(a)</sup>	Number and Percentage of Standards Passed	Number and Percentage of Standards Failed <sup>(b)</sup>
<b>Fiscal Year 2006</b>			
<b>1st Quarter</b>	96	49 (51%)	47 (49%)
<b>2nd Quarter</b>	90	42 (47%)	48 (53%)
<b>3rd Quarter</b>	87	51 (59%)	36 (41%)
<b>4th Quarter</b>	87	47 (54%)	40 (46%)
<b>Fiscal Year 2006 Totals</b>	360	189 (52%)	171 (48%)
<b>Fiscal Year 2007</b>			
<b>1st Quarter</b>	88	48 (55%)	40 (45%)
<b>2nd Quarter</b>	87	44 (51%)	43 (49%)
<b>3rd Quarter</b>	87	54 (62%)	33 (38%)
<b>Fiscal Year 2007 Totals (through 3<sup>rd</sup> Quarter)</b>	262	146 (56%)	116 (44%)
<b>Fiscal Years 2006 and 2007 (through 3<sup>rd</sup> Quarter)</b>			
<b>Fiscal Years 2006 and 2007 (through 3<sup>rd</sup> Quarter) Totals</b>	622	335 (54%)	287 (46%)

Source: Government Program Management Office.

<sup>a</sup> The standards are documented in the Letter of Obligation.

<sup>b</sup> The pass/fail determination of a standard is based on the combined error rates from the 10 campuses and the Quality Support Center for that standard.



## **Appendix VI**

### *Modernization and Information Technology Services Organization's Internal Improvement Initiatives*

#### **End User Equipment and Services Organization**

The End User Equipment and Services organization Seat Management activity to provide computers and computer support to IRS employees was originally selected for the OMB A-76 competitive sourcing process and publicly announced in December 2002. However, in November 2006, the IRS requested OMB approval to remove the Seat Management activity from OMB A-76 competition to pursue alternative approaches. The OMB asked the IRS to provide additional detail on Seat Management work functions that might be conducive to Business Process Reengineering/Improvement, private-private competition, and public-private competition. By December 2006, the Seat Management activity was removed from the OMB A-76 competitive sourcing process and was converted to a Business Process Reengineering effort. In July 2007, the Business Process Reengineering staff and MITS organization Senior Leaders met to develop and review a detailed governance process to ensure the success of this effort.

#### **Enterprise Networks Organization**

The Enterprise Networks organization is conducting a Business Process Improvement initiative and pursuing High Performing Organization status. The Enterprise Networks organization is responsible for providing all forms of electronic communications (e.g., voice, data, video, and wireless) in support of the current production environment and future business initiatives. To achieve High Performing Organization status, the Business Process Improvement Program was structured around nine major initiatives. The first initiative, Service Definitions, was completed by creating the Enterprise Networks Telecommunications Services Catalog (draft). This baseline of service information will be used to further define and develop the identified services as they relate to each of the nine major initiatives.

#### **Applications Development Organization**

The Applications Development organization is conducting a Business Process Improvement initiative and established a formal Program Office. Improvement subteams were formed to meet the Applications Development organization Business Process Improvement goal to increase productivity by 20 percent. For example, one of the subteams will focus on developing a framework for ongoing process improvement in areas such as project planning and project monitoring and control. Another team will define, document, and implement a process to collect and analyze measures that will be used to manage and improve organizational performance.



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Applications Development organization functions include the labor required to develop new applications or enhancements to existing applications that take more than 2 staff weeks to complete.

**Enterprise Operations Organization**

The Enterprise Operations organization restructured its Data Center Operations (i.e., Computing Centers) into a Competency-Based Organization. The Competency-Based Organization initiative features a mission-focused grouping of related skills, knowledge, and functions working together across the IRS in a standard manner by the most efficient and effective means possible. Specifically, the initiative focuses investment in consolidation of application servers and on process improvement at the three IRS Computing Centers. The Enterprise Operations organization is responsible for providing efficient, cost effective, secure, and highly reliable computing services for all IRS business entities and taxpayers and for managing the day-to-day operations of the network and contact center environments.



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**Appendix VII**

*Glossary of Terms*

<b>Term</b>	<b>Definition</b>
Business Process Improvement	The process for developing and implementing incremental improvements for a process.
Business Process Reengineering	The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service, and speed.
Campus	The data processing arm of the IRS. Campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Commercial Activity	A recurring service that could be performed by the private sector.
Competency Based Organization	An organization with a mission-focused grouping of related skills, knowledge, and functions working together across the enterprise in a standard manner to accomplish common objectives by the most efficient and effective means possible.
Competition	A formal evaluation of sources to provide a commercial activity that uses pre-established rules (e.g., the Federal Acquisition Regulation, and OMB A-76). Under OMB A-76, agencies must use streamlined or standard competition to determine whether Federal Government personnel should perform a commercial activity.
Competitive Sourcing Official	An inherently Governmental agency official responsible for the implementation of OMB A-76 within the agency. For the IRS, the competitive sourcing official is the Director, Office of Competitive Sourcing.
Computing Center	Supports tax processing and information management through a data processing and telecommunications infrastructure.



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<b>Term</b>	<b>Definition</b>
Contact Center Environment	The hardware, software, and communications infrastructure that enables the business units to meet the IRS' desired customer service levels.
Contracting Officer's Technical Representative	Furnishes technical direction, monitors contract performance, and maintains an arm's-length relationship with the contractor.
Customer Complaint	Complaints made by the customer, which if validated, may be used by the Government for the purpose of assessing the quality assurance of the redesigned Campus Operations organization.
Data Center Warehouse	A database containing the most highly used IRS information.
Full-Time Equivalent	A measure of labor hours in which 1 full-time equivalent is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Years 2006 and 2007, 1 full-time equivalent was equal to 2,080 staff hours.
Government Program Management Office	The organization that determines whether the redesigned Campus Operations organization's performance complies with the standards in the Letter of Obligation.
High Performing Organization	An organization within a Federal agency that performs commercial activities and whose cost efficiency and performance meet or exceed that of comparable providers, whether public or private.
Integrated Financial System	The system that is intended to address administrative financial management weaknesses. The first release of the Integrated Financial System will include the Accounts Payable, Accounts Receivable, General Ledger, Budget Execution, Cost Management, and Financial Reporting activities. A future Integrated Financial System release will be needed to fully resolve all administrative financial management weaknesses.
Letter of Obligation	A formal agreement that an agency implements when a standard or streamlined competition results in agency performance of the competed work (e.g., Most Efficient Organization).
Most Efficient Organization	The staffing plan of the agency, developed to represent the agency's most efficient and cost-effective organization.



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<b>Term</b>	<b>Definition</b>
One Hundred Percent (100%) Inspection	An evaluation method that requires complete inspection of a Letter of Obligation requirement.
Onsite Surveillance	An onsite visit at the 10 IRS campus locations performed by the Quality Assurance Evaluators to verify each site's conformance with applicable performance standards.
Performance Standard	A results-oriented measure that describes the level of performance expected for a particular job element. It describes what the redesigned Campus Operations organization is expected to produce in such dimensions as quality and timeliness. For example: 1) resolve problem tickets in accordance with the Internal Revenue Manual and 2) begin 93.5 percent of customer requested reprints no later than 2 hours after the request and 100 percent no later than 1 business day after the request.
Planned Sampling	Surveillance based on the evaluation of tasks selected on other than a 100 percent or random basis. It may be appropriate for tasks that occur infrequently and where 100 percent inspection is neither required nor practicable. A predetermined plan for inspecting part of the work is established using subjective judgment and analysis of agency resources to decide what work to inspect and how frequently to inspect it.
Quality Support Center	The organization responsible for monitoring performance at all campuses, analyzing data from internal quality inspections, initiating and managing standardized best practices, and issuing policy for successful compliance of unique processes.
Random Sampling	A sampling method in which each service output has an equal chance of being selected for quality assurance surveillance.
Remote Surveillance	Surveillance that can be performed from remote locations, using applications such as the Information Technology Asset Management System for inspection and reviewing of problem tickets.
Run-to-Run	A data processing control to ensure the totals or record counts for the prior computer run (i.e., processing) matches the opening totals for the current computer run.





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<b>Term</b>	<b>Definition</b>
Standard Competition	A type of competition where an agency selects a service provider based on formal offers submitted in response to an agency contract solicitation. The Government submits its own offer along with prospective private contractors. In a standard competition, the Government organization develops what is called a “most efficient organization” where the agency develops the staffing plan that will form the basis for the agency’s offer in the competition.
Standard Competition Form	The agency form that documents and certifies all costs calculated in the standard competition.
Streamlined Competition	A type of competition where an agency determines an estimated contract price for performing the work by an outside contractor. The agency has a fair amount of latitude in determining the estimated contract price. For example, the agency may solicit proposals from prospective contractors (although this is not required) or may instead conduct more informal market research, including basing the estimate on contractor prices from multiple award schedule contracts.
Treasury Integrated Management Information System	An official automated personnel and payroll system for storing and tracking all employee personnel and payroll data.



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**Appendix VIII**

*Management's Response to the Draft Report*



CHIEF INFORMATION OFFICER

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

RECEIVED  
DEC 14 2007

December 12, 2007

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Arthur L. Gonzalez *A. Gonzalez*  
Chief Information Officer

SUBJECT: Draft Audit Report – The Modernization and Information Technology  
Services Organization's Competitive Sourcing Program Needs  
Improvement (Audit #200720007) (i-trak #2008-30666)

Thank you for the opportunity to review the draft audit report. We appreciate your recognition of our accomplishments and our efforts to improve operational efficiency. We recognize that we have more to do to achieve our performance objectives. We agree with your recommendations and will take the corrective actions outlined in the attachment. We believe these actions will have a positive effect on the identified outcome measures.

We will work with the Chief Financial Officer (CFO) and the Office of Competitive Sourcing to develop a process for improving the consistency and accuracy of identifying actual costs and determining the source of estimated costs to enter into the Integrated Financial System (IFS). We will ensure the development of consistent IFS functional area codes, which will assist the Modernization and Information Technology Services, Agency-Wide Shared Services, and the CFO organizations with identifying costs associated with competitive sourcing.

We appreciate that the report acknowledges a decline in performance errors. We attribute this progress to the steps we have taken that include standardizing and enforcing processes and documentation; recruiting on a continuous cycle to address attrition; delivering core training to all operators; replacing aged printing hardware; providing additional vendor services; engaging management and employees in plans of action for quality improvement; and monitoring the supply inventory.

Thank you for your continued support and guidance. We appreciate the audit team's advice on ways to improve the process for managing and monitoring competitive sourcing initiatives. If you have any questions, please contact me at (202) 622-6800 or Perry Robinson, Director of Program Oversight Coordination, at (202) 283-6283.

Attachment



*The Modernization and Information Technology Services Organization's Competitive Sourcing Program Needs Improvement*

Draft Report – The Modernization and Information Technology Services Organization's Competitive Sourcing Program Needs Improvement (Audit #200720007) (i-trak #2008-30666)

**RECOMMENDATION #1:** The Chief Information Officer should ensure all MITS organizations consistently identify the actual costs, determine the source for the estimated costs to be entered into the Integrated Financial System (i.e., should they come from the Standard Competition Form, Letter of Obligation, modifications to the Letter of Obligation, or some other source), and notify the Chief Agency-Wide Shared Services and Chief Financial Officer of the input into the Integrated Financial System to assure consistent data pull for external reporting purposes.

**CORRECTIVE ACTION #1:** We agree with the recommendation. The Associate Chief Information Officer (ACIO), Management, will develop a process to ensure consistent and accurate identification of actual costs and determination of the source of estimated costs to be entered into the Integrated Financial System (IFS). The process will include notifying the Chief, Agency-Wide Shared Services (AWSS), and the Chief Financial Officer (CFO) when Modernization and Information Technology Services (MITS) enters data into the IFS. For external reporting purposes and to assure consistent data pulls, the Director, Financial Management Services, will establish a distinct functional area code in the IFS to monitor and report costs associated with Competitive Sourcing initiatives and instruct the MITS and CFO organizations, and the Office of Competitive Sourcing on its use.

**IMPLEMENTATION DATE:** May 1, 2008

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Management

**CORRECTIVE ACTION MONITORING PLAN:** We monitor corrective actions monthly using the Joint Audit Management Enterprise System (JAMES).

**RECOMMENDATION #2:** The Chief Information Officer should work with the Chief, Agency-Wide Shared Services to assign responsibility for comparing actual costs to the baseline, the Standard Competition Form, and the Letter of Obligation to determine whether estimated savings are realized and actual costs exceeded estimated costs.

**CORRECTIVE ACTION #2:** We agree with the recommendation. The Associate Chief Information Officer (ACIO), Management will ensure that each Modernization and Information Technology Services (MITS) office validates the financial data and conducts comparisons with the baseline, the Standard Competition Form, and the Letter of Obligation. To ensure a comprehensive review process, the ACIO, Management, in coordination with the Agency-Wide Shared Services, will examine policies and procedures to ensure that all MITS offices validate financial data using consistent criteria.

**IMPLEMENTATION DATE:** November 1, 2008

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Management

**CORRECTIVE ACTION MONITORING PLAN:** We monitor corrective actions monthly using the Joint Audit Management Enterprise System (JAMES).



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**RECOMMENDATION #3:** The Chief Information Officer should work with the Chief, Agency-Wide Shared Services and Chief Financial Officer to ensure the MITS organization reviews the savings and benefits for accuracy and concurs with the information to be reported externally.

**CORRECTIVE ACTION #3:** We agree with the recommendation. The Associate Chief Information Officer, Management, in coordination with the appropriate offices, will review policies and procedures and make any necessary adjustments to ensure all appropriate offices validate financial data using consistent criteria.

**IMPLEMENTATION DATE:** July 1, 2008

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Management

**CORRECTIVE ACTION MONITORING PLAN:** We monitor corrective actions monthly using the Joint Audit Management Enterprise System (JAMES).

**RECOMMENDATION #4:** The Chief Information Officer should provide additional training for employees with unsatisfactory performance and/or take appropriate personnel actions to ensure the redesigned Campus Operations organization complies with the performance standards in the Letter of Obligation.

**CORRECTIVE ACTION #4:** We agree with the recommendation. The Associate Chief Information Officer (ACIO), End User Equipment and Services (EUES), in conjunction with the Modernization and Information Technology Services' Learning and Education organization, will develop a standard training curriculum of basic and refresher courses to address the needs of all employees, including needs-based corrective training for those employees who receive unsatisfactory performance evaluations. The ACIO, EUES, will deliver the appropriate training based on a needs assessment to train new hires, develop skills, and address skills deficiencies and/or take appropriate personnel actions to ensure the redesigned Campus Operations organization complies with the performance standards in the Letter of Obligation.

**IMPLEMENTATION DATE:** October 1, 2008

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, End User Equipment and Services

**CORRECTIVE ACTION MONITORING PLAN:** We monitor corrective actions monthly using the Joint Audit Management Enterprise System (JAMES).

**RECOMMENDATION #5:** The Chief Information Officer should continue to work with the business units to reduce the number of files printed and obtain agreement on a schedule for converting the remaining print files to electronic files for online viewing to ensure the redesigned Campus Operations organization actual costs are within the Letter of Obligation and Standard Competition Form cost estimates.



*The Modernization and Information Technology Services Organization's Competitive Sourcing Program Needs Improvement*

Draft Report – The Modernization and Information Technology Services Organization's Competitive Sourcing Program Needs Improvement (Audit #200720007) (i-trak #2008-30666)

**CORRECTIVE ACTION #5:** We agree with the recommendation. The Associate Chief Information Officer (ACIO), End User Equipment and Services (EUES), will continue to work with the business units using the Service Level Agreement to categorize those files that demand hard copy print outs. The ACIO, EUES, will meet with the business units to obtain agreement on a plan and schedule for converting the remaining print files to electronic files for online viewing to ensure the redesigned Campus Operations organization actual costs are within the Letter of Obligation and Standard Competition Form cost estimates.

**IMPLEMENTATION DATE:** July 1, 2008

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, End User Equipment and Services

**CORRECTIVE ACTION MONITORING PLAN:** We monitor corrective actions monthly using the Joint Audit Management Enterprise System (JAMES).

**RECOMMENDATION #6:** The Chief Information Officer should work with the Director, Procurement to determine what actions should be taken (e.g., re-competing the redesigned Campus Operations organization work), if the performance standards continue to be unmet and/or the actual costs continue to exceed the estimated costs in the Letter of Obligation.

**CORRECTIVE ACTION #6:** We agree with the recommendation. The Associate Chief Information Officer (ACIO), End User Equipment and Services (EUES), in partnership with the Modernization and Information Technology Services' Director of Strategic Planning and Performance Measurement, will work with the Director of Procurement to develop a plan of required actions, to address unmet performance standards and/or actual costs exceeding estimated costs in the Letter of Obligation.

**IMPLEMENTATION DATE:** June 1, 2008

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, End User Equipment and Services

**CORRECTIVE ACTION MONITORING PLAN:** We monitor corrective actions monthly using the Joint Audit Management Enterprise System (JAMES).

**RECOMMENDATION #7:** The Chief Information Officer should ensure future Most Efficient Organization proposals meet the IRS business units' requirements by implementing suggestions from the lessons learned document and obtain a requirements agreement from the customers.

**CORRECTIVE ACTION #7:** We agree with the recommendation. The Associate Chief Information Officer, Management, will develop a repeatable process that includes a Memorandum of Understanding with a requirements agreement from the affected business units (e.g. customers). We will consider suggestions from the Lessons Learned for the Modernization





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*The Modernization and Information Technology Services Organization's Competitive Sourcing Program Needs Improvement*

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Draft Report – The Modernization and Information Technology Services Organization's Competitive Sourcing Program Needs Improvement (Audit #200720007) (i-trak #2008-30666)

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and Information Technology Services Campus Operations A-76 Study as we develop the process.

**IMPLEMENTATION DATE:** October 1, 2008

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Management

**CORRECTIVE ACTION MONITORING PLAN:** We monitor corrective actions monthly using the Joint Audit Management Enterprise System (JAMES).