



*While Improvements Continue in Contract
Negotiation Methods and Management
Practices, Inconsistencies Need to Be
Addressed*

July 27, 2007

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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.

Phone Number | 202-927-7037

Email Address | Bonnie.Heald@tigta.treas.gov

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



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 27, 2007

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES
CHIEF INFORMATION OFFICER

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – While Improvements Continue in Contract
Negotiation Methods and Management Practices, Inconsistencies Need
to Be Addressed (Audit # 200620011)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) has established and is following adequate contract negotiation and management practices for systems development task orders.¹ This review was part of the Treasury Inspector General for Tax Administration's Fiscal Year 2006 Information Systems Programs audit plan for reviews on the adequacy and security of IRS technology.

Impact on the Taxpayer

The IRS awarded 21 Business Systems Modernization (Modernization) task orders during Fiscal Years 2005 and 2006 with a total contract funding amount of approximately \$115 million.² We determined the IRS needs to further refine contract negotiation and management practices for its Modernization and non-Modernization systems development task orders. It has already achieved savings of nearly \$3.7 million from implementing one of our prior recommendations.³ Further improvements from applying consistent contract negotiation and management practices will assist the

Further improvements from applying consistent contract negotiation and management practices will assist the IRS in assuring taxpayer funds are spent wisely.

¹ See Appendix V for a glossary of terms.

² Information obtained from IRS Office of Procurement reports. We did not verify the accuracy of this information.

³ See Appendix IV for further details.



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IRS in assuring taxpayer funds are being spent wisely and the goals of the Information Technology Modernization Vision and Strategy Framework (IT Framework) are accomplished.

Synopsis

The Modernization and Information Technology Services organization and the Office of Procurement have recognized the need to improve management of task orders for the Modernization program and have emphasized the increased use of performance-based contracting as one approach toward this improvement. Since our prior review,⁴ we determined the IRS has made significant improvements. For example, it is preparing independent Federal Government cost estimates, documenting negotiation priorities and strategies, and completing negotiations timely.

While the Modernization and Information Technology Services organization and the Office of Procurement continue to make improvements to contract negotiation and management practices, further improvements can be made to select and document appropriate contract types by 1) balancing risk between the IRS and its contractors, 2) ensuring incentives and disincentives are included in task orders when appropriate, and 3) improving documentation to justify the contract type selected.

In addition, further improvements can be made to contract negotiation and management practices by 1) improving the preparation and use of independent Federal Government cost estimates, 2) eliminating the use of Memoranda of Understanding, 3) consistently preparing and using preaward timelines, and 4) monitoring contractors' performance by consistently including measurable performance standards in task orders and documenting contractors' performance against the standards.

In November 2005, the IRS released the draft IT Framework, which announced a change in the way the IRS intended to accomplish its modernization. In the past, the IRS approach to modernizing was an enormous development effort aimed at replacing its non-Modernization systems. The IRS is now focusing on a flexible, more realistic approach that seeks to use non-Modernization systems, as well as current and future information technology investments, to accomplish modernization.

Prior to publishing the IT Framework, the Modernization and Information Technology Services organization and the Office of Procurement invested significant time and effort establishing internal controls related to Modernization projects. Now that the IRS is using both Modernization and non-Modernization systems to accomplish modernization as part of the

⁴ *While Many Improvements Have Been Made, Continued Focus Is Needed to Improve Contract Negotiations and Fully Realize the Potential of Performance-Based Contracting* (Reference Number 2005-20-083, dated May 2005).



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IT Framework, there is a need to review internal controls to determine whether some of the Modernization contract negotiation and management internal controls should be expanded to non-Modernization systems development activities.

Recommendations

We recommended the Chief Information Officer and the Chief, Agency-Wide Shared Services, ensure an appropriate balance of risk between the IRS and its contractors, improve preaward processes, improve monitoring of contractor performance, and improve consistency of contract negotiation and management practices between Modernization and non-Modernization systems development task orders.

Response

IRS management agreed with the recommendations. Corrective actions planned or taken include continuing to evaluate the use of firm fixed-price contracts; emphasizing the use of performance-based acquisitions; providing training opportunities; collecting and reviewing lessons learned from the use of independent estimates developed by the Estimation Program Office; tailoring the Total Information Processing Support Services Performance Work Statement template to meet each of the Enterprise Life Cycle milestones based on customers' needs; ensuring Modernization projects consistently prepare performance monitoring plans and all organizations are aware of the information available on the IRS Procurement Intranet site; assessing the need for multiyear funding and adding the appropriate amount of Information Technology Modernization Vision and Strategy funds into the 2-year budget appropriation; and establishing criteria for applying Modernization contract negotiation and management practices to non-Modernization systems development activities. Management's complete response to the draft report is included as Appendix VII.

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



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Background

The Internal Revenue Service (IRS) is currently engaged in an effort, known as Business Systems Modernization (hereafter referred to as Modernization), to modernize its systems and associated processes. The Modernization program is a complex effort to modernize IRS technology and related business processes. According to the IRS, this effort will involve integrating thousands of hardware and software components.

The Modernization and Information Technology Services organization supports tax administration within the IRS by delivering information technology services and solutions. The Modernization and Information Technology Services organization and the IRS Office of Procurement have recognized the need to improve management of task orders¹ for the Modernization program and have emphasized the increased use of performance-based contracting as one approach toward this improvement. The goal of performance-based contracting is to improve the value of contracted services by emphasizing objective, measurable, mission-related requirements. Through performance-based contracting, the Federal Government benefits by receiving better performance at lower cost with reduced administrative burdens, while contractors benefit by having more control over their ability to earn profits based on performance.

In March 2000, the IRS hired a contractor, Jefferson Solutions, to teach IRS and contractor personnel how to properly implement performance-based contracting concepts. Since that time, we have provided recommendations to improve contract management for the Modernization program. We issued a report in September 2002 concerning the use of performance-based contracting techniques to manage task orders for the Modernization program and whether contract terms and requirements were being met.² We issued another report in May 2005 reflecting the improvements made in this area and indicating the actions necessary for the Modernization program to fully realize the potential of performance-based contracting.³

Federal Government contract negotiation and management practices continue to garner high-level concern. Comptroller General David Walker recently recommended the 110th Congress “. . . assess agencies’ efforts to ensure that acquisitions are performance- and outcome-based, with appropriate risk-sharing contracts in place.”

¹ See Appendix V for a glossary of terms.

² *Additional Improvements Are Needed in the Application of Performance-Based Contracting to Business Systems Modernization Projects* (Reference Number 2002-20-170, dated September 2002).

³ *While Many Improvements Have Been Made, Continued Focus Is Needed to Improve Contract Negotiations and Fully Realize the Potential of Performance-Based Contracting* (Reference Number 2005-20-083, dated May 2005).



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We made recommendations for improvement in the areas of 1) firm fixed-price task orders, 2) contract negotiation practices, and 3) monitoring contractor performance. Throughout the remainder of this report, when we refer to our prior audit, we are referring to the May 2005 report.

Since our prior audit, the IRS began taking dramatic actions to restructure and redesign significant areas within the Modernization program. Some examples include the IRS taking over the role of systems integrator from the PRIME contractor, developing a new Information Technology Modernization Vision and Strategy Framework (hereafter referred to as the IT Framework), and changing its approach from completely replacing non-Modernization systems to using non-Modernization systems to accomplish modernization.

This audit was conducted while changes were being made to how the IRS oversees and manages its systems development projects. We communicated the interim results of our review and suggestions for improvement to Modernization and Information Technology Services organization and Office of Procurement officials on March 1, 2007. Any changes that have occurred since we concluded our analyses are not reflected in this report. As a result, this report may not reflect the most current status of contract negotiation methods and management practices within the IRS.

This review was performed at the Modernization and Information Technology Services organization facilities in New Carrollton, Maryland, during the period August 2006 through March 2007. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

Significant Improvements Have Been Made in Contract Negotiation and Management Practices

Since our prior audit, the IRS has made significant improvements in the following areas:⁴

- **Stakeholder Involvement in Pre-Negotiation Sessions and Tracking Pre-Negotiation Issues** – The four acquisition teams that held pre-negotiation sessions ensured all stakeholders were present, which helps ensure negotiation objectives are achieved and negotiations are efficient. Also, the two acquisition teams with significant pre-negotiation issues documented and tracked the issues to resolution.
- **Independent Federal Government Cost Estimates** – The IRS has taken effective corrective actions to our prior audit recommendation to obtain independent Federal Government cost estimates (hereafter referred to as independent estimates). Independent estimates provide contracting officers with essential knowledge needed to evaluate and negotiate contract proposals. During this audit, we determined seven of the eight acquisition teams prepared an independent estimate. The team that did not prepare an independent estimate for Fiscal Year 2007 did prepare one for Fiscal Year 2008. In addition, one acquisition team provided written documentation that it realized a cost savings of nearly \$3.7 million as a result of obtaining an independent estimate.⁵
- **Negotiation Priorities and Strategies** – The two acquisition teams that had significant negotiation issues documented their negotiation priorities and strategies. Documenting negotiation priorities and strategies provides acquisition teams with an overall framework to guide negotiations and achieve desired contracting results.
- **Awarding Task Orders Timely** – Three of four Modernization acquisition teams prepared a timeline and completed negotiations timely.

Several of these areas display significant improvement over the results from our prior audit. Figure 1 provides a comparison of the results from our current audit with the results of our prior audit for the most significantly improved areas.

⁴ This is based on our review of a sample of eight task orders. All areas we reviewed were not applicable to all task orders. See Appendix I for details on the sample.

⁵ See Appendix IV for details.



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Figure 1: Significant Improvements in Contract Negotiation and Management Practices

Prior Audit Results	Current Audit Results
Six of seven acquisition teams did not prepare an independent estimate.	One of eight acquisition teams did not prepare an independent estimate.
Six of seven acquisition teams did not document negotiation priorities and strategies.	Both acquisition teams that had significant negotiation issues documented their negotiation priorities and strategies.
All seven acquisition teams did not allow enough time for negotiations or did not budget for negotiations.	Three of four teams, required to prepare a preaward timeline, prepared a timeline and completed negotiations timely.

Source: Prior audit results were obtained from our prior report. Current audit results are from our analysis of contract documentation for eight sampled task orders.

Further Improvements Are Needed in the Selection and Documentation of Appropriate Contract Types

While the Modernization and Information Technology Services organization and the Office of Procurement continue to make improvements to contract negotiation and management practices for the Modernization program, further improvements can be made to 1) balance risk between the IRS and its contractors, 2) ensure incentives and disincentives are included in task orders when appropriate, and 3) improve documentation to justify the contract type selected.

The IRS needs to balance risk between itself and its contractors

The selection and use of appropriate contract types is an important part of the strategy for successful acquisitions within the Modernization program. The Federal Acquisition Regulation section on service contracting indicates a firm fixed-price performance-based contract is the preferred contract type.⁶ In addition, the IRS has instituted internal controls to improve its probability of signing firm fixed-price task orders for Milestones 4b and 5.⁷ In response to our prior audit, the IRS indicated it would continue to address stabilizing requirements in the early milestones (1 through 3) and use firm fixed-price contracting in the later milestones (4 and 5)

⁶ 48 C.F.R. § 16.202-1 (February 2007).

⁷ See Appendix VI for an overview of the Enterprise Life Cycle.

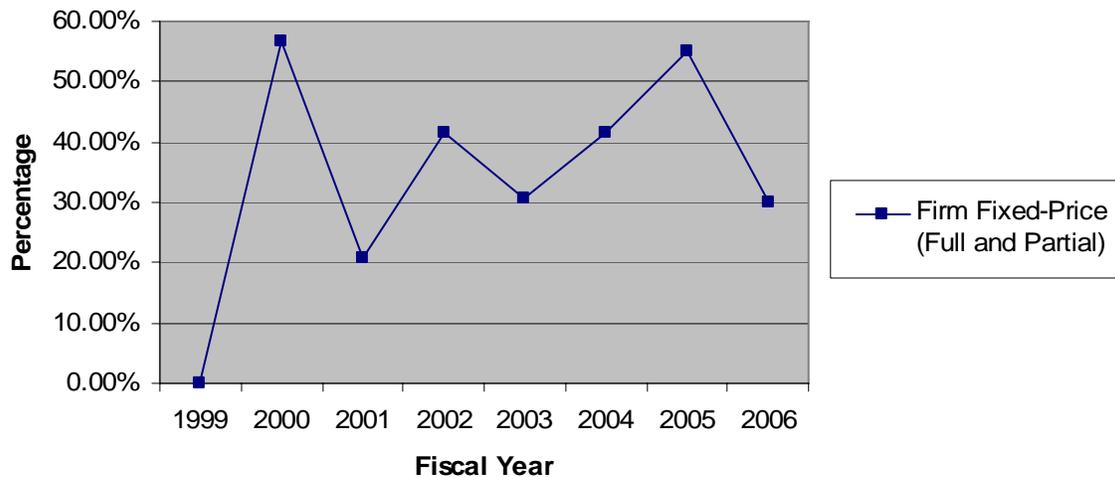


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where requirements are more stable and better defined. Firm fixed-price contract types place upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss.

While the use of firm fixed-price task orders in the overall Modernization program had been trending upward, Fiscal Year 2006 showed a sharp decline in their use. We determined 6 (55 percent) of 11 task orders signed in Fiscal Year 2005 were full or partial firm fixed-price task orders, while only 3 (30 percent) of 10 task orders signed in Fiscal Year 2006 were full or partial firm fixed-price task orders. Figure 2 shows the results of our analysis of the use of firm fixed-price task orders for Fiscal Years 1999 through 2006.

Figure 2: Firm Fixed-Price Task Orders by Fiscal Year



Source: Analysis of Office of Procurement Fiscal Years 1999 through 2006 task order lists as of August 2, 2006.

In addition to the decline in overall use of firm fixed-price task orders within the Modernization program, we determined the IRS has struggled to sign firm fixed-price task orders for its Modernization projects in Milestones 4b and 5. Acquisition project teams explained the difficulties in signing firm fixed-price task orders were the result of several factors:

- One project team reported unstable requirements not only in Milestone 5 but also during operations and maintenance.
- One project team reported release requirements were not defined and releases were not associated with available funding.⁸

⁸ *The Modernized e-File Project Can Improve the Management of Expected Capabilities and Associated Costs* (Report Number 2007-20-005, dated December 27, 2006).



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- One project team reported several reasons for its inability to sign a firm fixed-price task order, including requirements not being fully developed or agreed to.⁹

While the Enterprise Life Cycle specifies firm fixed-price is the preferred contract type and emphasizes its use in Milestones 4b and 5, we determined overall use of firm fixed-price is decreasing and task orders in the later milestones are still encountering barriers to firm fixed-price contracting, such as lack of stable requirements.

When use of a firm fixed-price task order is not possible, the IRS should attempt to balance some risk with the contractor. However, the IRS often signs cost-plus-fixed-fee task orders. Modernization guidance states this type of task order provides relatively little in the way of positive performance incentives to the contractor while maximizing the Federal Government's obligation for cost and schedule management and performance. As a result, cost-plus-fixed-fee task orders are the least preferred contract types. While Modernization guidance states there should be few instances in which Modernization program requirements are so uncertain as to necessitate the use of this task order type, we noted the majority of Modernization task orders awarded in the last 2 fiscal years were cost-plus-fixed-fee task orders. Figure 3 provides a summary of the Modernization contract type usage over the last 2 fiscal years.

“Public sector officials and representatives of government contractors testified that the government frequently is unable to define its requirements sufficiently to allow for fixed price solutions.”

Report of the Acquisition Advisory Panel to the Office of Federal Procurement Policy and the United States Congress

⁹ *Focusing Management Efforts on Long-Term Project Needs Will Help Development of the Customer Account Data Engine Project* (Report Number 2006-20-076, dated June 2006).



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Figure 3: Modernization Contract Type Usage Over the Last 2 Fiscal Years

Contract Type	Pro	Con	Percentage
Contractor Bears the Risk of Nonperformance; Minimum Contract Administration			
Firm Fixed-Price	Places 100 percent responsibility and risk on the contractor. Encourages contractor efficiency and economy with minimum administration.	Difficult to make changes in the requirement after the contract is awarded.	28.57%
Federal Government and Contractor Share the Risk of Nonperformance; Heavy Contract Administration			
Cost-Plus-Incentive-Fee	Encourages economic, efficient, and effective performance when cost reimbursement type of contract is necessary.	Heavy burden on both contracting and technical personnel to ensure contractor personnel use efficient methods and effective cost control.	4.76%
Federal Government Bears the Risk of Contractor Nonperformance; Heavy Contract Administration			
Firm Fixed-Price Level of Effort	Price and level of effort are set.	No guarantee that desired results will be achieved. Heavy technical administration burden on the Federal Government to ensure results are achieved.	14.29%
Cost-Plus-Fixed-Fee	May proceed with general scope and indefinite specifications.	Minimum incentive to the contractor for cost control with Federal Government monitoring required to ensure contractor personnel use efficient methods and effective cost control.	52.38%

Source: Treasury Inspector General for Tax Administration analysis of Modernization contract type usage for Fiscal Years 2005 and 2006.

If the IRS does not balance risk with its contractors, there will be insufficient incentive for the contractors to perform well and little assurance that taxpayer funds are being spent wisely.

The IRS needs to focus on ensuring incentives and disincentives are included in task orders when appropriate

When the IRS is unable to shift risk to contractors, it can use financial and performance incentives to motivate contractors to effectively manage cost and results. The Federal



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Acquisition Regulation¹⁰ states positive incentives, negative incentives, or both should be included in every contract to promote contract efficiency and maximize performance. Also, recent Senate Appropriations language required adequate clauses to be “. . . included to allow the agency to seek appropriate consideration (e.g., fee reduction or withholding, price reductions) if contractor performance fails to meet contract requirements.” While this language was never passed, we are aware the IRS intends to be responsive to Congress’ concerns.

Over the last 2 years, the IRS has signed 2 (9.5 percent) of 21 Modernization task orders with incentives.¹¹ We did not identify any disincentives in the task orders we reviewed. Developing and negotiating measurable rewards/penalties is a difficult and time-consuming process; therefore, Federal Government agencies have continued to struggle to develop measurable performance standards and the incentives and disincentives associated with those standards. In addition, the IRS has stated in the past it believed the use of disincentives would not necessarily ensure more timely delivery of projects and would lead to an adversarial relationship between itself and its contractors. Without incentives or disincentives, contractors may not perform well and may not be held accountable for not performing well.

Management Actions: At the December 14, 2006, Modernization and Information Technology Services Enterprise Governance Committee meeting, a presentation was given stating that procedures were augmented to ensure “adequate clauses [are] included to allow the agency to seek appropriate consideration (e.g., fee reduction or withholding, price reductions, etc.) if contractor performance fails to meet contract requirements.” Fee reduction, fee withholding, price reductions, etc. are examples of disincentives. We determined the procedures were never augmented because the Office of Procurement determined standard Federal Acquisition Regulation performance clauses were already available to accomplish the intent of ensuring contractors are held accountable for poor performance. We were informed the Applications Development organization has formed a team, known as the Contracts Management Liaison and Exhibit 300 Team, to identify and gain insight into the contracting needs of major systems development projects within the Applications Development organization. This Team plans to review existing task orders, including use of standard Federal Acquisition Regulation language, to identify improvement opportunities and followup actions.

The IRS needs to improve documentation justifying the type of contract chosen

The Federal Acquisition Regulation requires a justification to be documented when a contract type, other than firm fixed-price, is chosen.¹² The IRS accomplishes this through the preparation of a Determination and Findings Document.

¹⁰ 48 C.F.R. § 37.602(b) (Amended February 2007).

¹¹ The two incentive task orders include one cost-plus-incentive-fee task order and one cost-plus-fixed-fee with performance incentive task order.

¹² 48 C.F.R. § 16.103(d) (Amended February 2007).



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Three of eight acquisition teams did not prepare these Documents, and two of eight project teams prepared Documents that did not provide adequate justification for why the particular contract type was chosen. Based on inconsistencies in the preparation of Determination and Findings Documents, we determined there are no internal controls in place to ensure adequate Documents are prepared when necessary.

Selecting the contract type is generally a matter for negotiation and requires the exercise of sound judgment. Without detailed documentation, the IRS may not have full insight into why particular contract types are chosen. If the appropriate contract type is not chosen, task orders may not balance risk with the contractor or provide the contractor with the greatest incentive for efficient and economical performance.

Recommendation

Recommendation 1: To ensure an appropriate balance of risk between the IRS and its contractors, the Chief Information Officer and the Chief, Agency-Wide Shared Services, should:

- a. Determine how persistent barriers to firm fixed-price contracting within the Modernization program can be eliminated. For example, acquisition teams should review the criteria checklist included in the *Selection of Appropriate Contract Types for BSM [Business Systems Modernization] Task Orders* issued on November 1, 2005, to determine what actions can be taken to ensure firm fixed-price contracting is applicable, such as stabilizing requirements.
- b. Ensure improvements and training opportunities for the use of incentives and disincentives are identified and coordinate with other IRS organizations to encourage the use of incentives and disincentives for systems development task orders outside the control of the Modernization and Information Technology Services organization.
- c. Ensure Determination and Findings Documents are consistently prepared, as required by the Federal Acquisition Regulation, with adequate information to explain the reasoning for the choice of contract type.

Management's Response: The Chief Information Officer and the Chief, Agency-Wide Shared Services, agreed with this recommendation, responding that the IRS continues to evaluate the use of firm fixed-price contracts as required by the Federal Acquisition Regulation and in accordance with IRS guidelines. For example, on a number of occasions, the IRS has issued firm fixed-price contracts after the Physical Design has been developed rather than employing the previous practice of issuing a cost-plus type contract at an earlier stage of the systems development life cycle when the requirements have not yet been firmed up. The Business Rules and Requirements Management office issued a series of requirements development and requirements management standards and guidance effective for Modernization projects in March 2007. Having better documented and stabilized requirements helps projects plan and manage



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development-phase acquisitions going forward. The IRS continues to look for opportunities to employ firm fixed-price contracts on an ongoing basis.

The Director, Procurement, emphasizes to Office of Procurement management the use of performance-based acquisitions to the maximum extent practicable, which includes the use of incentives and disincentives. In Fiscal Year 2006, the Treasury Acquisition Institute offered the following performance-based courses for procurement and program personnel in other IRS organizations:

- Seven Steps to Performance-Based Acquisition.
- Six Disciplines of Performance-Based Management.

The Office of Procurement will provide training opportunities for IRS personnel through the Treasury Acquisition Institute but cannot require attendance at those courses. Individual managers make the determination based on employees' work assignments and developmental needs.

The Office of Procurement Quality Assurance Branch ensures the Determination and Findings Documents are in the files requiring solicitation/contract review. The Quality Assurance Branch has also issued reminder emails to operations offices to ensure they are continuously aware of this requirement for any award other than a firm fixed-price award. In addition, internal operating instructions include areas of reviews that will continue to be emphasized. The Quality Assurance Branch will issue another reminder email emphasizing the importance of adequate documentation in this area.

Further Improvements Are Needed for Preaward Processes

While the Modernization and Information Technology Services organization and the Office of Procurement continue to improve compliance with contract negotiation and management practices, further improvements can be made by 1) improving the preparation and use of independent estimates, 2) eliminating the use of Memoranda of Understanding, and 3) consistently preparing and using preaward timelines.

The IRS needs to improve the preparation and use of independent estimates

The Federal Acquisition Regulation requires the initial negotiation position to be based on the results of the contracting officer's analysis of the offeror's proposal, taking into consideration technical analysis, factfinding results, and independent estimates.¹³ In addition, Department of Defense practices state "Differences greater than 25% between the offered price and the IGCE [independent Federal Government cost estimate] may indicate a serious disconnect between what is being offered and the requirements. Contracting Officers should immediately

¹³ 48 C.F.R. § 15.406-1 (a) (Amended February 2007).



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notify acquisition managers for appropriate remedial action that may include . . . cost estimate review, formal discussions . . . modification of the contract, or cancellation of the requirement.”

We determined 4 of the 7 independent estimates we reviewed were 25 percent greater than the contractor proposal amount. Project officials informed us the independent estimates were not always helpful because they were prepared either before major assumptions were changed or after negotiations had already begun and did not always include a thorough analysis of costs and assumptions. In addition, discussions with IRS officials indicate independent estimates could be improved to be a more useful task order negotiations tool. Furthermore, the documentation we reviewed indicated independent estimates were not always considered when determining whether the contractor’s price was reasonable, resulting in the time and effort spent to create independent estimates not always providing the intended benefit to the IRS.

The IRS should consider eliminating the use of Memoranda of Understanding

The Modernization *Acquisition Package Development* procedure provides guidance that Memoranda of Understanding are to be prepared for PRIME contractor task orders and may be prepared for task orders with other contractors as appropriate. The Memoranda are intended to promote early common understanding between the IRS and contractors on the scope of the task order.

We determined only one of three project teams required to prepare a Memorandum of Understanding actually prepared one. Based on our review of existing internal controls, we determined the information provided in the Memorandum duplicates other information required to be prepared. In addition, the project team that prepared a Memorandum of Understanding did not believe it provided any value. Since the information provided in the Memorandum duplicates other information required to be developed, we determined there would be no adverse effect to eliminating the requirement to prepare a Memorandum of Understanding.

The IRS needs to consistently prepare and use preaward timelines

Modernization procedures require the acquisition project teams to record planned and actual dates associated with the activities required to award a task order or process a major modification to an existing task order. The data are used by Modernization and Information Technology Services organization and Office of Procurement management to track the progress of ongoing preaward and modification activities. For the four sampled task orders required to have a preaward timeline, two project teams did not prepare an adequate preaward timeline. Preaward timelines were not completed due to changes in acquisition team personnel. If the IRS does not record planned and actual pre-negotiation activities, it will be unable to track the progress of ongoing preaward and modification activities.



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Recommendation

Recommendation 2: To improve preaward processes, the Chief Information Officer and the Chief, Agency-Wide Shared Services, should:

- a. Collect and review lessons learned from the use of independent estimates to determine whether independent estimates can become a consistently more useful negotiations tool (e.g., ensuring estimates are obtained at the appropriate time).
- b. Eliminate the Memorandum of Understanding requirement included in the *Acquisition Package Development* procedure for Modernization task orders.
- c. Ensure estimated and actual preaward dates are consistently tracked.

Management's Response: The Chief Information Officer and the Chief, Agency-Wide Shared Services, agreed with this recommendation, responding that the IRS will collect and review lessons learned from the use of independent estimates developed by the Estimation Program Office, a branch in the Program Management Office Service. The Estimation Program Office will document findings from the review. The Business Integration organization is in the process of implementing changes to the estimation program for the remainder of Fiscal Year 2007 and through Fiscal Year 2008, based on reviews of existing processes as well as industry best practices. The resources associated with the estimation program are fully engaged in implementing these changes and applying the new processes to the creation of estimates during the remainder of Fiscal Year 2007 and through Fiscal Year 2008. The IRS will collect and review lessons learned from the new processes to gain the maximum benefit of the review; it plans to complete that review by March 1, 2009.

The IRS has removed the Memorandum of Understanding requirement included in the *Acquisition Package Development* procedure for Modernization task orders.

To ensure consistent tracking of estimated and actual preaward dates for systems development projects, the Treasury Information Processing Support Services Program Branch has enhanced the standard Acquisition Plan to better reflect estimated and actual preaward dates. The new tracking tool identifies the major milestones with both the planned and actual dates of completion.

Further Improvements Are Needed in Monitoring Contractor Performance

While the Modernization and Information Technology Services organization and the Office of Procurement continue to make improvements to fully implement performance-based contracting, further improvements in contractor monitoring can be made by 1) consistently including



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measurable performance standards in task orders and 2) documenting contractor performance against the standards.

The IRS should focus on including measurable performance standards in task orders

The Federal Acquisition Regulation requires performance-based contracts for services to include measurable performance standards (e.g., in terms of quality, timeliness, quantity) and the method of assessing contractor performance against those standards.¹⁴ In addition, the *Modernization Performance Monitoring* directive states performance-based contracting is the standard for all Modernization task orders. In accordance with this directive, Modernization processes require Modernization projects to use performance-based templates created by the Office of Procurement.

Six (75 percent) of the 8 task orders we reviewed need improvement in the inclusion of measurable performance standards. The project teams for four task orders used general acceptance criteria instead of outcome-based performance standards, and no performance standards were identified for two task orders.

Based on the inconsistent use of measurable performance standards, we determined there is no internal control in place to ensure Modernization project teams use performance-based statement of work templates as required. In addition, there were no approved performance-based statement of work templates available for project teams using the Total Information Processing Support Services contract at the time the task orders in our sample were prepared. Without measurable performance standards, it is more difficult to monitor and measure contractor performance against expected outcomes. As a result, expected outcomes may not be achieved.

Management Actions: The Office of Procurement has developed a performance-based statement of work template for Total Information Processing Support Services task orders for Milestones 3 and 4A. According to the IRS, the Applications Development organization will be trained on the use of the new Total Information Processing Support Services template by this summer. In addition, Office of Procurement officials informed us they are working on templates for operations and maintenance. However, they have not begun work on templates for other milestones. If templates had been used by personnel skilled in identifying and writing measurable performance standards based on outcomes, we believe this would have assisted the projects we reviewed that used the Total Information Processing Support Services contract.

The IRS needs to focus on documenting the monitoring of contractor performance

Performance monitoring is the key to ensuring contractors are performing in accordance with stated outcomes and the Federal Government is receiving the desired results. The *Performance Monitoring for BSM [Business Systems Modernization] Task Orders* directive requires the preparation of a Task Order Monitoring Plan for all task orders prior to task order award. The

¹⁴ 48 C.F.R. § 37.601 (February 2007).



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Plan provides a means to routinely verify that task order activities are completed in accordance with requirements. In addition, the *Task Order Monitoring* process requires the IRS to document contractor performance in the form of periodic contractor performance reports and documented review findings in accordance with Task Order Monitoring Plans.

All Modernization task orders are required to have a Task Order Monitoring Plan. One of the four Modernization task order acquisition teams did not prepare a Plan. All acquisition teams provided evidence of consistent Federal Government involvement with the contractor during the period of performance (e.g., attendance at periodic status meetings and review of contractor progress reports). However, in many cases, the status meetings and progress reports did not relate specifically to contractor performance standards or task order requirements.

Acquisition teams were not sure what documentation was necessary to record contractor performance. In addition, the one team that did not prepare a Task Order Monitoring Plan could not provide an explanation for the oversight. Without a Plan, specific task order monitoring of cost, schedule, and quality may not be as effective. For example, a recent audit involving one of the task orders from our review determined the contractor's assignment of personnel was not closely monitored by the IRS. As a result, the audit identified approximately \$3.4 million in questionable contractor charges.¹⁵

Recommendation

Recommendation 3: To improve monitoring of contractor performance, the Chief Information Officer and the Chief, Agency-Wide Shared Services, should:

- a. Complete development of additional Total Information Processing Support Services performance-based statement of work templates to include all milestones.
- b. Ensure improvements and training opportunities for the use of performance standards are identified and coordinate with other IRS organizations to encourage the use of performance standards for systems development task orders outside the control of the Modernization and Information Technology Services organization.
- c. Ensure Modernization projects consistently prepare performance monitoring plans (e.g., Task Order Monitoring Plans, Quality Assurance Surveillance Plans).
- d. Collect and disseminate guidance for documenting contractor performance and coordinate with other IRS organizations to communicate the importance of documenting contractor performance for systems development task orders outside the control of the Modernization and Information Technology Services organization.

¹⁵ *Voucher Audit of the Information Processing Support Services Contract - TIRNO-00-D-00009* (Reference Number 2007-10-050, dated February 27, 2007).



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Management's Response: The Chief Information Officer and the Chief, Agency-Wide Shared Services, agreed with this recommendation, responding that the Total Information Processing Support Services Performance Work Statement template is being tailored to meet each of the Enterprise Life Cycle milestones based on customers' needs. The newly created Operations and Maintenance template was released as a draft version on March 8, 2007. The template was further enhanced to incorporate Milestones 2 through 6 on May 23, 2007. This replaces previous versions of the template. The Treasury Information Processing Support Services Program Branch is currently trying to identify a new requirement to use the Operations and Maintenance template to work through any potential issues. After the template has been successfully used and revised based on the lessons learned from the test acquisition, it will be used as the standard Operations and Maintenance Performance Work Statement template. Once the Operations and Maintenance template is finalized, the Treasury Information Processing Support Services Program Branch will work with its customers to identify whether any additional Performance Work Statement templates are needed to meet their needs.

To ensure improvements and training opportunities for the use of performance standards are identified and coordinate with other IRS organizations, the Office of Procurement will continue to emphasize to Office Directors and Branch Chiefs the use of performance-based acquisitions, which includes the Quality Assurance Surveillance Plan that contains the measures and standards that must be monitored. This is emphasized in the following courses: Seven Steps to Performance-Based Acquisition and Six Disciplines of Performance-Based Management. Also, the Office of Procurement will continue to emphasize this in the contracting officer's training course.

The IRS agreed to ensure Modernization projects consistently prepare performance monitoring plans (e.g., Task Order Monitoring Plans, Quality Assurance Surveillance Plans) and will continue to work with projects to ensure implementation of current policy. For Modernizations projects, the Enterprise Life Cycle requires project managers to develop a Project Management Plan, which is a milestone exit requirement. The Project Management Plan templates include sections for Configuration Management, Task Order Monitoring, Quality Assurance, and other plans.

In Fiscal Year 2007, the IRS has continued to enhance and improve the governance and project control of its Information Technology portfolio. As part of those improvements, additional project oversight has been achieved through health assessments, expanded project control reviews, and expanded governance by Executive Steering Committees. Further improvements in Fiscal Year 2007 include expansion of governance boards at levels below the Executive Steering Committees.

The Office of Procurement currently provides performance-based contracting best practice guidance to IRS organizations via its Intranet site. In addition, the Office of



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Procurement Office of Strategic Acquisition Initiatives held the Acquisition Planning Conference on March 21-22, 2007. This conference included an Acquisition Planning Seminar entitled, “The Six Disciplines of Performance-Based Management,” which provided information on performance monitoring.

The Procurement Intranet site contains a “Performance-Based Service Acquisition” module and a “How To” module that links to Office of Federal Procurement Policy Guidance - Seven Steps to Performance-Based Acquisition and a performance-based statement of work template. The Office of Procurement will update the Intranet site to include links to sample monitoring plan templates under the “How To” module and the Procurement Forms, Reports, and Templates module. The “Performance-Based” module and the “How To” module will be updated to contain a link to the “The Six Disciplines of Performance-Based Management.”

The IRS will ensure all organizations are aware of the information available on the Office of Procurement Intranet site and will add a question and answer to the Frequently Asked Questions emphasizing the importance of performance monitoring and referencing the performance-based information and monitoring plan templates. Also, a communication will be issued to inform all IRS employees that performance monitoring information is available through the Office of Procurement site.

While Actions Are Being Taken to Improve Contracting and Management Practices Concerning Non-Modernization Development Projects, Additional Actions Need to Be Taken

In November 2005, the IRS released the draft IT Framework, which announced a change in the way the IRS intended to accomplish its modernization. In the past, the IRS approach to modernizing was an enormous development effort aimed at replacing its non-Modernization systems. The IRS recognized the need for an integrated approach to enterprise modernization and is now focusing on a flexible, more realistic approach that seeks to use non-Modernization systems, as well as current and future information technology investments, to accomplish modernization.

Prior to publishing the IT Framework, the Modernization and Information Technology Services organization and the Office of Procurement invested significant time and effort establishing internal controls related to Modernization projects. Now that the IRS is using both Modernization and non-Modernization systems to accomplish modernization as part of the IT Framework, there is a need to review internal controls to determine whether some of the Modernization contract negotiation and management internal controls should be expanded to non-Modernization systems development activities.

The IRS is taking actions to improve contract negotiation and management practices concerning non-Modernization systems development activities; however, some additional actions need to be



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taken. The IT Framework includes both Modernization and non-Modernization systems, and multiple dependencies exist between them. However, there are also many non-Modernization development activities that are low-cost and do not have a major impact on the IT Framework. Therefore, it may not make sense to expand Modernization contract negotiation and management practices to all non-Modernization systems.

In comparing Modernization contract negotiation and management practices with non-Modernization systems development contract negotiation and management practices, we identified several differences. The IRS is taking steps to close some of these gaps.

- Non-Modernization systems development projects use the Enterprise Life Cycle-Lite systems development life cycle, while Modernization projects use the full Enterprise Life Cycle.
- Non-Modernization systems development task orders are managed by schedule and not by milestone.
- Non-Modernization systems development task orders use work requests to define work versus performance-based statements of work generally used for Modernization projects.
- Non-Modernization systems development task orders are not required to prepare preaward timelines.
- Non-Modernization systems development task orders do not have a process in place to document and track pre-negotiation issues to resolution.

The IRS is in the beginning stages of the IT Framework and has not established formal criteria providing guidance for contract negotiation and management practices for non-Modernization systems development task orders. Further improvements from applying consistent contract negotiation and management practices will assist the IRS in assuring taxpayer funds are being spent wisely and the goals of the IT Framework are accomplished.

Management Actions: The IRS is taking several actions to close contract negotiation and management gaps between Modernization and non-Modernization systems development task orders. For example:

- While there are two main life cycle development methodologies within the IRS, the Enterprise Life Cycle methodology used for the Modernization program was recently updated to include other major projects, not just Modernization projects.
- The Office of Procurement has developed a performance-based statement of work template for the Total Information Processing Support Services contract, often used for current business system development. This

Further improvements from applying consistent contract negotiation and management practices will assist the IRS in assuring taxpayer funds are spent wisely.



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template includes performance standards and a surveillance plan for Milestones 3 and 4A. While the Office of Procurement has developed the template, the Modernization and Information Technology Services organization has not updated its processes to require its use.

In addition, we, as well as other IRS officials, initially believed non-Modernization systems development funding was available for only 1 year, while Modernization funding was available for multiple years. The Director, Finance (Modernization and Information Technology Services), informed us that non-Modernization systems development funding is available for 2 years and that she would clarify this fact in future budget guidance.

Recommendation

Recommendation 4: To improve consistency of contract negotiation and management practices between Modernization and non-Modernization systems development task orders, the Chief Information Officer and the Chief, Agency-Wide Shared Services, should:

- a) Ensure program and project managers are aware of the availability of multiyear funding for non-Modernization systems development, to further enable the use of firm fixed-price contracting.
- b) Ensure smaller, low-risk projects are not overburdened by excessive internal controls by establishing criteria (e.g., cost, risk, dependencies) for applying Modernization contract negotiation and management practices to non-Modernization systems development activities. Several practices that should be considered include:
 - Use of the full Enterprise Life Cycle versus the Enterprise Life Cycle-Lite.
 - Appropriate use of milestone-based, performance-based statements of work with performance standards and surveillance plans versus schedule-based work requests to define work.
 - Preparation and tracking of estimated and actual preaward dates versus no requirement for tracking estimated and actual preaward dates.
 - Documenting and tracking pre-negotiation issues to resolution versus no process to document or track pre-negotiation issues.

Management's Response: The Chief Information Officer and the Chief, Agency-Wide Shared Services, agreed with this recommendation, responding that the Modernization and Information Technology Services organization Financial Management Services organization will work with the Associate Chief Information Officers to assess their needs for multiyear funding and add the appropriate amount of Information Technology Modernization Vision and Strategy funds into the 2-year budget appropriation. In addition, the IRS will assess whether the amount should be adjusted at



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the start of each Budget Cycle. This procedure will be documented in the Budget Cycle document by October 12, 2007, to communicate this change to program and project managers.

To ensure smaller, low-risk projects are not overburdened by excessive internal controls by establishing criteria (e.g., cost, risk, dependencies) for applying Modernization contract negotiation and management practices to non-Modernization systems development activities, the IRS issued Interim Guidance, signed by the Chief Information Officer and dated May 15, 2007, which establishes that the full Enterprise Life Cycle will supersede the Enterprise Life Cycle-Lite.

The Treasury Information Processing Support Services Program Branch has established Standard Operating Procedures and created templates to streamline the acquisition process. These processes are in a constant state of evaluation and improvement to provide the best customer service, while ensuring the high quality of services being acquired. Smaller, low-risk projects use these same procedures to acquire a higher level of service without the impact to their schedules and without excessive internal controls.

The Treasury Information Processing Support Services Program Branch is committed to increasing the use of performance-based acquisitions. The use of appropriate milestone-based performance work statements is facilitated by the Treasury Information Processing Support Services Templates, expert contractor support, and additional training for the staff. The Program Branch is trying to move from level of effort, work request-driven task orders, wherever practicable, to provide more fixed-price completion activities, in an effort to better serve the customers' needs and manage funds more effectively.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall audit objective of this review was to determine whether the IRS has established and is following adequate contract negotiation and management practices for systems development task orders. To accomplish our audit, we identified the internal controls and criteria used as guidance for the negotiation and management of task orders. These internal controls and criteria include the guidance provided by the Federal Acquisition Regulation and Modernization directives and processes. To accomplish our objective, we performed the following steps using a judgmental sample of task orders (see Sample Selection Methodology section below):

- I. Determined whether the corrective actions taken by the IRS in response to recommendations in our prior audit¹ for the use of firm fixed-price task orders have been effective.
 - A. Determined whether Determination and Findings documents were prepared and included sufficient detail.
 - B. Interviewed IRS officials to determine what barriers kept the IRS from negotiating firm fixed-price task orders.
- II. Determined whether the corrective actions taken by the IRS in response to recommendations in our prior audit for contract negotiation best practices have been effective. Determined whether:
 - A. All stakeholders attended negotiation sessions.
 - B. Independent Federal Government cost estimates were prepared for each task order.
 - C. A Memorandum of Understanding was prepared and pre-negotiation issues were tracked.
 - D. Negotiation priorities and strategies were documented.
 - E. Negotiations were completed timely.

¹ *While Many Improvements Have Been Made, Continued Focus Is Needed to Improve Contract Negotiations and Fully Realize the Potential of Performance-Based Contracting* (Reference Number 2005-20-083, dated May 2005).



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- III. Determined whether the corrective actions taken by the IRS in response to recommendations in our prior audit for monitoring contractor performance have been effective.
 - A. Determined whether performance standards included appropriate incentives/disincentives.
 - B. Compared monitoring results to task order requirements.
- IV. Determined whether the IRS was applying contract negotiations and management practices consistently across Business Systems Modernization (Modernization) and non-Modernization projects.

Sample selection methodology

The IRS awarded 21 Modernization task orders during Fiscal Years 2005 and 2006 with a total contract funding amount of approximately \$115 million.² We selected a sample of 4 (19 percent) of 21 Modernization task orders that were active in Fiscal Year 2006. We also selected 4 (15 percent) of 26 non-Modernization systems development task orders that were active in Fiscal Year 2006. We selected four Modernization task orders based on contract type and four non-Modernization task orders based on contract amount. We judgmentally selected the eight task orders because we were not going to project the results to the entire population. Figure 1 presents information on the eight task orders sampled.

Figure 1: Task Order Sample

Project Name	Original Contract Award Amount ³	Original Period of Performance
Modernization Task Orders		
Integrated Financial System Milestone 5	\$19,500,000.00	February 1, 2005 – November 30, 2005
Systems Integration Support Services	\$14,288,952.00	November 10, 2005 – November 9, 2006
Business Rules Support	\$1,544,254.00	January 2, 2006 – January 1, 2007
Filing and Payment Compliance – Milestone 3, 4A	\$1,500,000.00	August 15, 2005 – February 27, 2007

² Information obtained from IRS Office of Procurement reports. We did not verify the accuracy of this information.

³ Information obtained from an Office of Procurement list of task orders. The accuracy of this information was not verified.



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Project Name	Original Contract Award Amount ³	Original Period of Performance
Non-Modernization Systems Development Task Orders		
Compliance Data Environment	\$3,433,417.00	April 25, 2006 – April 24, 2007
Corresponding Imaging System – Release 2	\$2,238,001.00	August 15, 2005 – August 14, 2006
Examination Desktop Support System – Release 2	\$5,792,405.00	August 11, 2006 – August 10, 2007
Tax Exempt/Government Entity Returns Inventory and Classification System Compliance Decision Analytics	\$2,492,186.37	August 14, 2006 – August 13, 2007

Source: Office of Procurement task order lists as of August 2, 2006.



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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
Troy Paterson, Audit Manager
Phung-Son Nguyen, Acting Audit Manager
Suzanne Noland, Acting Lead Auditor
Paul Mitchell, Senior Auditor
Bruce Polidori, Senior Auditor
Wallace Sims, Senior Auditor



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Appendix III

Report Distribution List

Commissioner C

Office of the Commissioner – Attn: Chief of Staff C

Deputy Commissioner for Operations Support OS

Associate Chief Information Officer, Applications Development OS:CIO:AD

Associate Chief Information Officer, Enterprise Services OS:CIO:ES

Director, Procurement OS:A:P

Director, Stakeholder Management OS:CIO:SM

Deputy Associate Chief Information Officer, Applications Development OS:CIO:AD

Deputy Associate Chief Information Officer, Business Integration OS:CIO:ES:BI

Deputy Associate Chief Information Officer, Systems Integration OS:CIO:ES:SI

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 Controls OS:CFO:CPIC:IC

Audit Liaisons:

Associate Chief Information Officer, Applications Development OS:CIO:AD

Associate Chief Information Officer, Enterprise Services OS:CIO:ES

Director, Procurement OS:A:P

Director, Program Oversight Office OS:CIO:SM:PO



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact a prior recommendation has had on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Cost Savings – Actual; \$3,682,729 (see page 3).

Methodology Used to Measure the Reported Benefit:

The Federal Acquisition Regulation requires the initial negotiation position to be based on the results of the contracting officer's analysis of the offeror's proposal, taking into consideration technical analysis, factfinding results, and independent Federal Government cost estimates.¹ In our May 2005 report,² we found the IRS may not have been obtaining requested services at a fair and reasonable cost because independent cost estimates were not required by Business Systems Modernization processes. We recommended the IRS promote consistent application of best practices by obtaining independent cost estimates.

As part of our current review, the acquisition team for the Customer Account Data Engine Release 3 project provided written documentation that it realized a cost savings of \$3,682,729 from obtaining an independent estimate. The cost savings originated from eliminating unnecessary travel of \$250,000, reducing the number of full-time employees that were proposed, and comparing the skill mix proposed to the scope of work required.³

¹ 48 C.F.R. § 15.406-1 (a) (Amended February 2007).

² *While Many Improvements Have Been Made, Continued Focus Is Needed to Improve Contract Negotiations and Fully Realize the Potential of Performance-Based Contracting* (Reference Number 2005-20-083, dated May 2005).

³ Information obtained from the Customer Account Data Engine acquisition team. We did not verify the accuracy of this information.



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Appendix V

Glossary of Terms

Term	Definition
Applications Development	The Applications Development organization was created from the prior Business Systems Development and Business Systems Modernization Office organizations to eliminate gaps and overlaps that existed throughout the development cycle. The Business Systems Development organization was responsible for defining, building, testing, delivering, and maintaining integrated information applications systems that help achieve the business vision and objectives of the IRS. The Business Systems Modernization Office was responsible for acquiring and delivering new computer hardware and software for the IRS' modernized business processes.
Best Practice	A best practice is a technique or methodology that, through experience and research, has proven to reliably lead to a desired result.
Business Rule	A business rule is a statement that defines or constrains some aspect of the business.
Business Rules Support	A business rules support contract includes project-level support and program-level analysis activities to clearly define business rules, support the streamlining of the business rules methodology, and develop templates and practice guides that support project-level business rules development.



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Term	Definition
Compliance Data Environment	The Compliance Data Environment project will provide electronic data to other examination systems, such as the Examination Desktop Support System.
Correspondence Imaging System	The Correspondence Imaging System project will provide IRS customer service representatives with the online ability to view, forward, save, retrieve, print, and manage incoming taxpayer inquiries.
Cost-Plus-Fixed-Fee Contract	A cost-plus-fixed-fee contract is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. The fixed fee does not vary with actual cost but may be adjusted as a result of changes in the work to be performed under the contract.
Customer Account Data Engine	The Customer Account Data Engine is the foundation for managing taxpayer accounts in the IRS modernization plan. It will consist of databases and related applications that will replace the existing IRS Master File ¹ processing systems and include applications for daily posting, settlement, maintenance, refund processing, and issue detection for taxpayer tax account and return data.
Enterprise Life Cycle	The Enterprise Life Cycle is a structured business systems development method that requires the preparation of specific work products during different phases of the development process.

¹ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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Term	Definition
Enterprise Life Cycle-Lite	System development methodology for non-Business Systems Modernization systems development projects.
Examination Desktop Support System	The Examination Desktop Support System is a modernized system that will replace an antiquated report-generating system and will serve Small Business/Self-Employed Division tax return examiners working in both standalone and connected environments.
Federal Acquisition Regulation	The Federal Acquisition Regulation is established for the codification and publication of uniform policies and procedures for acquisitions by all executive branch agencies.
Filing and Payment Compliance	The Filing and Payment Compliance project will provide support for detecting, scoring, and working nonfiler cases (filing compliance) and delinquency cases (payment compliance).
Firm Fixed-Price Task Order	A firm fixed-price task order sets a price that is not subject to any adjustment because of cost overruns incurred by the contractor.
Information Technology Modernization Vision and Strategy Framework	The Information Technology Modernization Vision and Strategy Framework establishes a 5-year plan that drives investment decisions; addresses the priorities around modernizing front-line tax administration and supporting technical capabilities; and leverages existing systems (where possible) and new development (where necessary) to optimize capacity, manage program costs, and deliver business value on a more incremental and frequent basis.



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Term	Definition
Integrated Financial System	The Integrated Financial System is intended to address administrative financial management weaknesses. The first release of the Integrated Financial System included the Accounts Payable, Accounts Receivable, General Ledger, Budget Execution, Cost Management, and Financial Reporting activities.
Jefferson Solutions	Jefferson Solutions is a division of Jefferson Consulting Group, Limited Liability Company, and has been designated by the Office of Federal Procurement Policy to provide training on performance-based contracting.
Milestone	Milestones provide for “go/no-go” decision points in a project and are sometimes associated with funding approval to proceed.
Modernization and Information Technology Services Enterprise Governance Committee	This Committee is the highest level recommending and decision-making body to oversee and enhance enterprise management of information systems and technology. It ensures strategic modernization and information technology program investments, goals, and activities are aligned with and support 1) the business needs across the enterprise and 2) the modernized vision of the IRS.



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Term	Definition
Modernized e-File	The Modernized e-File project develops the modernized, web-based platform for filing approximately 330 IRS forms electronically, beginning with the U.S. Corporation Income Tax Return (Form 1120), U.S. Income Tax Return for an S Corporation (Form 1120S), and Return of Organization Exempt From Income Tax (Form 990). The project serves to streamline filing processes and reduce the costs associated with a paper-based process.
Performance-Based Contracting	Use of performance-based contracting means structuring all aspects of an acquisition around the purpose of the work to be performed, with the contract requirements set forth in clear, specific, and objective terms with measurable outcomes.
Performance Standards or Criteria	Criteria used to measure the quality, timeliness, and cost of delivered products or services.
PRIME Contractor	The PRIME contractor heads an alliance of leading technology companies brought together to assist with the IRS' efforts to modernize its computer systems and related information technology.
Statement of Work	A statement of work documents the work to be performed by the contractor, period of performance, performance standards, and special requirements.
Systems Integration Support Services	The Systems Integration Support Services task order has as an overall outcome: the effective and efficient integration of modernized business solutions into the IRS Enterprise.



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Term	Definition
Task Order	A task order is an order for services planned against an established contract.
Task Order Monitoring Plan	A Task Order Monitoring Plan documents the responsibilities and criteria for collecting and documenting monitoring information (e.g., costs, timeliness, and quality of performance).
Tax Exempt/Government Entity Returns Inventory and Classification System Compliance Decision Analytics	The Tax Exempt/Government Entity Returns Inventory and Classification System provides users access to return and filer information related to the filing and processing of employee plans, exempt organizations, and Government entities forms.
Total Information Processing Support Services	The Total Information Processing Support Services contract provides a broad range of information technology-related services.
Work Request	A work request contains the specific details of the work to be performed in a task order including the skill categories, estimated number of hours, required work products, and acceptance criteria.



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Appendix VI

Enterprise Life Cycle Overview

The Enterprise Life Cycle is the IRS standard approach to business change and information systems initiatives. It is a collection of program and project management best practices designed to manage business change in a successful and repeatable manner. The Enterprise Life Cycle addresses large and small projects developed internally and by contractors.

The Enterprise Life Cycle includes such requirements as:

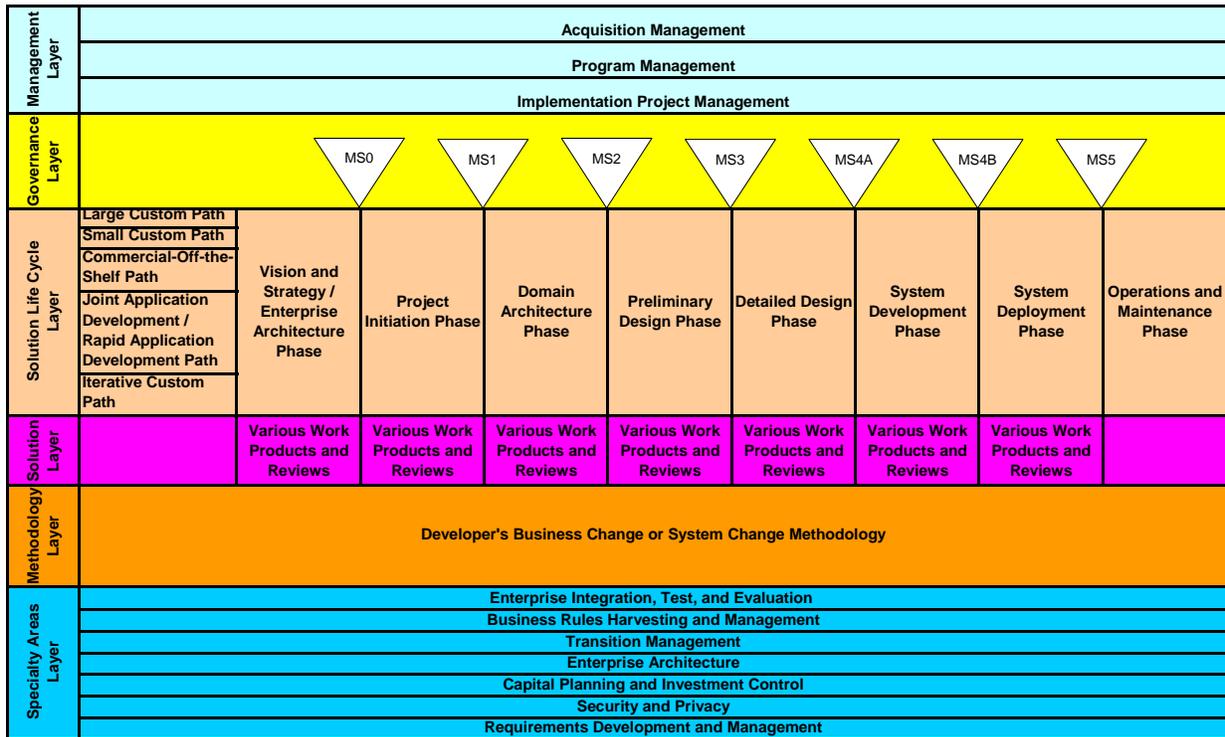
- Development of and conformance to an enterprise architecture.
- Improving business processes prior to automation.
- Use of prototyping and commercial software, where possible.
- Obtaining early benefit by implementing solutions in multiple releases.
- Financial justification, budgeting, and reporting of project status.

In addition, the Enterprise Life Cycle improves the IRS' ability to manage changes to the enterprise; estimate the cost of changes; and engineer, develop, and maintain systems effectively. Figure 1 provides an overview of the layers, paths, phases, and milestones (shown as "MS" in Figure 1) within the Enterprise Life Cycle Framework.



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Figure 1: Enterprise Life Cycle Framework



Source: Graphical representation of the Enterprise Life Cycle Framework modified from the Enterprise Life Cycle Guide.

Enterprise Life Cycle Layers

The Enterprise Life Cycle is a framework for organizing and using IRS directives, processes, procedures, templates, and standards to accomplish business change. It is organized as a set of six interacting layers.

- The **Management Layer** specifies how to plan and control business change programs, projects, acquisitions, and solutions throughout the Enterprise Life Cycle.
- The **Governance Layer** specifies additional controls imposed from outside the project or program.
- The **Solution Life Cycle Layer** specifies what should be done but not how to do it.
- The **Solution Layer** manages the solution as it is produced, including providing standards for consistent solution specification and formal review of solution content. This Layer provides control over work products that may be produced by multiple internal and external developers using differing methodologies.



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- The **Methodology Layer** details how to do the work and specifies a unique set of work products to be produced. Specific methodologies are not part of the Enterprise Life Cycle Framework.
- The **Specialty Areas Layer** provides additional guidance for areas of particular importance within the IRS. These areas include Enterprise Integration, Test, and Evaluation;¹ Business Rules Harvesting² and Management; Transition Management;³ Enterprise Architecture; Capital Planning and Investment Control;⁴ Security and Privacy; and Requirements Development and Management.

Enterprise Life Cycle Paths

A path specifies a unique “philosophy” or orientation for performing the work. Although the Enterprise Life Cycle specifies a standard for the work required to produce and operate business change solutions, there are multiple ways to approach and accomplish the required work. Paths are like alternate roads, each of which crosses different terrain, but all of which lead to the same destination. The Enterprise Life Cycle provides five distinct paths or approaches to developing systems:

- The **Large Custom Path** is for large projects.
- The **Small Custom Path** is for small projects.
- The **Commercial-Off-the-Shelf Path** is a commercial software-based approach.
- The **Joint Application Development/Rapid Application Development Path** is a highly accelerated, prototyping-based approach for very small, standalone solutions or solution components.

¹ Enterprise Integration, Test, and Evaluation includes processes for integrating multiple components of a solution and conducting various types and levels of testing on the solution.

² A business rule is a statement that defines or constrains some aspect of the business. Harvesting is a general term used to broadly describe the entire set of activities involved in gathering, formalizing, analyzing, and validating business rules for a particular scope.

³ Transition Management helps ensure personnel and organizations are prepared to receive, use, operate, and maintain the business processes and technology provided by business change solutions.

⁴ The Capital Planning Investment and Control process manages a central portfolio of information technology investments across the IRS.



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- The **Iterative Custom Path** is a hybrid approach that combines elements of the other approaches.

Enterprise Life Cycle Phases and Milestones

A phase is a broad segment of work encompassing activities of similar scope, nature, and detail and providing a natural breakpoint in the life cycle. Each phase begins with a kickoff meeting and ends with an executive management decision point (called a milestone) at which IRS executives make “go/no-go” decisions for continuation of a project. Project funding decisions are often associated with milestones.

Figure 2: Enterprise Life Cycle Phases and Milestones

Phase	General Nature of Work	Concluding Milestone
Vision and Strategy/Enterprise Architecture Phase	High-level direction setting. This is the only phase for enterprise planning projects.	0
Project Initiation Phase	Startup of development projects.	1
Domain Architecture Phase	Specification of the operating concept, requirements, and structure of the solution.	2
Preliminary Design Phase	Preliminary design of all solution components.	3
Detailed Design Phase	Detailed design of solution components.	4A
System Development Phase	Coding, integration, testing, and certification of solutions.	4B
System Deployment Phase	Expanding availability of the solution to all target users. This is usually the last phase for development projects.	5
Operations and Maintenance Phase	Ongoing management of operational systems.	System Retirement

Source: *The Enterprise Life Cycle Guide*.



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Appendix VII

Management's Response to the Draft Report



CHIEF INFORMATION OFFICER

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

RECEIVED

JUN 28 2007

June 28, 2007

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard A. Spires
Chief Information Officer
James P. Falcone
Chief, Agency-Wide Shared Services

SUBJECT: Draft Report – While Improvements Continue in Contract Negotiation
Methods and Management Practices, Inconsistencies Need to Be
Addressed (Audit #200620011) (i-trak # 2007-25386)

Thank you for the opportunity to review the subject draft audit report and to meet with the audit team to discuss previous report observations. As a result of these meetings, the audit team incorporated our suggestions into the draft report.

We appreciate TIGTA's acknowledgement that the Internal Revenue Service is continuing to make significant progress to restructure and redesign areas within the Modernization program and to develop the new Information Technology Vision and Strategy framework. Likewise, your recognition that the Service is preparing independent Federal Government cost estimates, documenting negotiation priorities and strategies, and completing negotiations timely is duly noted.

Much has been accomplished since the data gathering for this audit was completed. To ensure estimated and actual pre-award dates for systems development projects are consistently tracked, the Treasury Information Processing Support Systems (TIPSS) Program Branch has enhanced the standard Acquisition Plan to better reflect estimated and actual pre-award dates. The new tracking tool identifies the major milestones with both the planned and actual completion dates. In addition, the current TIPSS Performance Work Statement template is being tailored to meet each of the Enterprise Life Cycle (ELC) milestones based on customer needs. The newly created Operations and Maintenance template was released as a draft version on March 08, 2007.

In addition, the IRS has removed the Memorandum of Understanding requirement included in the Acquisition Package Development procedure for Modernization task orders. We continue to work with project managers regarding ELC Project Management Plan requirements for Configuration Management, Task Order Monitoring, Quality Assurance, and other plans.

We acknowledge and appreciate the audit team's advice on ways to further improve the process to effectively manage and monitor Contract Negotiations and Management Practices. As you



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know, we continue to evaluate all recommendations and will include yours in future implementation plans. We fully agree with the recommendations reflected in this report and the attachment to this memo describes our planned actions to implement them.

We appreciate your continued support and the valuable assistance and guidance that your team provides. If you have any questions, please contact Richard Spires at (202) 622-6800. Members of your staff may also contact Perry Robinett, Director of Program Oversight, at (202) 283-6283.

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RECOMMENDATION #1: To ensure an appropriate balance of risk between the IRS and its contractors, the Chief Information Officer and the Chief, Agency-Wide Shared Services, should:

- A. Determine how persistent barriers to firm fixed-price contracting within the Modernization program can be eliminated. For example, acquisition teams should review the criteria checklist included in the *Selection of Appropriate Contract Types for BSM [Business Systems Modernization] Task Orders* issued on November 1, 2005, to determine what actions can be taken to ensure firm fixed-price contracting is applicable, such as stabilizing requirements.
- B. Ensure improvements and training opportunities for the use of incentives and disincentives are identified and coordinate with other IRS organizations to encourage the use of incentives and disincentives for systems development task orders outside of the control of the Modernization and Information Technology Services organization.
- C. Ensure Determination and Findings documents are consistently prepared, as required by the Federal Acquisition Regulation, with adequate information to explain the reasoning for the choice of contract type.

CORRECTIVE ACTION #1A: We agree with, and have implemented, the recommendation to determine how persistent barriers to firm fixed-price (FFP) contracting within the Modernization program can be eliminated. We continue to evaluate the use of FFP contracts as required by the Federal Acquisition Regulation (FAR) and in accordance with IRS guidelines. For example, on a number of occasions, we have issued FFP contracts after the Physical Design (Milestone 4a) has been developed, rather than issue a cost-plus type contract at an earlier stage of the systems development life cycle when the requirements have not yet been firmed up. The Business Rules and Requirements Management (BRRM) Office issued a series of requirements development and management standards and guidance effective for Business Systems Modernization (BSM) projects in March 2007. Having better documented and stabilized requirements helps BSM projects plan and manage development-phase acquisitions (Milestone 4b) going forward. The IRS continues to look for opportunities to employ FFP contracts on an ongoing basis.

IMPLEMENTATION DATE: Completed March 31, 2007. These are ongoing activities.

RESPONSIBLE OFFICIAL: Chief Information Officer

CORRECTIVE ACTION MONITORING PLAN: N/A

CORRECTIVE ACTION #1B: We agree with, and have implemented, the recommendation to ensure improvements and training opportunities for the use of incentives and disincentives are identified and coordinated with other IRS organizations to encourage the use of incentives and disincentives for systems development task orders outside of the control of the Modernization and Information Technology Services (MITS) organization. The Director of Procurement emphasizes to procurement management the use of performance-based acquisitions (PBA) to the



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maximum extent practicable, which includes the use of incentives and disincentives. In Fiscal Year (FY) 2006, the Treasury Acquisition Institute (TAI) offered the following performance-based courses for procurement and program personnel in other IRS organizations:

- Seven Steps to Performance-Based Acquisition; and
- Six Disciplines of Performance-Based Management.

Procurement will provide training opportunities for IRS personnel through the TAI, but cannot require attendance at those courses. Individual managers make the determination based on employees' work assignments and developmental needs. In FY 2007, the TAI plans to offer the following performance-based courses for procurement and program personnel in other IRS organizations:

- Seven Steps to Performance-Based Acquisition – August 8, 2007;
- Six Disciplines of Performance-Based Management – August 10, 2007; and
- Contracting Officer's Technical Representative (COTR) Training – September 14, 2007.

In addition, TAI continues to offer the Treasury COTR basic training course, which includes a module on Performance-Based Work Statements, at least once a month. These courses will continue in FY 2007 and beyond. In addition to the courses, the IRS continues to offer the following training and improvement opportunities:

- One-on-one contact/discussions with procurement branches and customers;
- Advance acquisition planning conference focused on performance-based acquisition (PBA) concepts;
- Advance acquisition planning council;
- Statement of Work Writer's Guide on the IRS Intranet;
- PBA ad hoc training available for teams; and
- SkillSoft On-Line Training for PBA.

Because the decision to use incentives/disincentives requires full participation from program offices, the IRS Office of Procurement has emphasized the use of PBA to program officials through the advance acquisition planning process, the annual advance acquisition planning conference, and training opportunities. IRS Procurement's Office of Strategic Acquisition Initiatives (SAI) held the Acquisition Planning Conference on March 21-22, 2007. This conference also included an Acquisition Planning Seminar entitled "The Six Disciplines of Performance-Based Management," which provided information and guidance on using incentives and disincentives.

The following documents are some continuous improvement opportunities IRS Procurement uses to coordinate with other IRS organizations:



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- **Advance Acquisition Plan Formulation:** IRS Procurement issues an annual call for submission of advance acquisition planning information. Included in this memorandum is a statement that “*every effort should be made to convert cost-reimbursement task orders to fixed-price, performance-based, when it is practical.*” In addition, the memo includes detailed information about the Office of Management and Budget’s emphasis on performance-based acquisition.
- **Memo from IRS Deputy Commissioner:** On October 7, 2004, the Deputy Commissioner for Operations Support signed a memorandum requiring that all program officials use PBA strategies to the maximum extent practicable when developing requirements for services.
- **IRS Procurement’s intranet site (<http://awss.procurement.irs.gov/howto/sow.htm>):** This site includes information on PBA and guidance on how to write a performance work statement.

IMPLEMENTATION DATE: Completed March 1, 2007. These are ongoing activities.

RESPONSIBLE OFFICIAL: Director, Procurement

CORRECTIVE ACTION MONITORING PLAN: N/A

CORRECTIVE ACTION #1C: We agree with the recommendation to ensure Determination and Findings documents are consistently prepared, as required by the Federal Acquisition Regulation, with adequate information to explain the reasoning for the choice of contract type. IRS Procurement’s Quality Assurance (QA) Branch ensures that the Determination and Findings are in the files requiring solicitation/contract review. The QA Branch has also issued reminder e-mails to operations offices to ensure they are continuously aware of this requirement for any award other than FFP. In addition, internal operating instructions include areas of reviews that will continue to be emphasized. The QA Branch will issue another reminder e-mail emphasizing the importance of adequate documentation in this area.

IMPLEMENTATION DATE: October 1, 2007

RESPONSIBLE OFFICIAL: Director, Procurement

CORRECTIVE ACTION MONITORING PLAN: Continue to perform quality reviews of contract files and take appropriate action to ensure that documents are consistently and adequately prepared.



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RECOMMENDATION #2: To improve pre-award processes, the Chief Information Officer and the Chief, Agency-Wide Shared Services, should:

- A. Collect and review lessons learned from the use of independent estimates to determine whether independent estimates can become a consistently more-useful negotiations tool, e.g., ensuring estimates are obtained at the appropriate time.
- B. Eliminate the Memorandum of Understanding requirement included in the Acquisition Package Development procedure for Modernization task orders.
- C. Ensure estimated and actual pre-award dates are consistently tracked.

CORRECTIVE ACTION #2A: We agree with the recommendation to collect and review lessons learned from the use of independent estimates to determine whether independent estimates can become a consistently more-useful negotiations tool, e.g., ensuring estimates are obtained at the appropriate time. The IRS will collect and review lessons learned from the use of independent estimates developed by the Estimation Program Office (EPO), a branch in Program Management Office Service (PMOS). EPO will document findings from the review.

Business Integration is in the process of implementing changes to the estimation program for the remainder of FY 2007 and through FY 2008, based on reviews of existing processes as well as industry best practices. The resources associated with the estimation program are fully engaged in implementing these changes and applying the new processes to the creation of estimates during the remainder of 2007 and through 2008. The IRS will collect and review lessons learned from the new processes in order to gain the maximum benefit of the review, and therefore plans to complete that review by March 1, 2009.

IMPLEMENTATION DATE: March 1, 2009

RESPONSIBLE OFFICIAL: Deputy Associate Chief Information Officer, Business Integration

CORRECTIVE ACTION MONITORING PLAN: We enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.

CORRECTIVE ACTION #2B: We agree with, and have implemented, the recommendation to eliminate the Memorandum of Understanding (MOU) requirement included in the Acquisition Package Development procedure for Modernization task orders. The IRS has removed the MOU requirement included in the Acquisition Package Development procedure for Modernization task orders.

IMPLEMENTATION DATE: Completed April 30, 2007



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RESPONSIBLE OFFICIAL: Deputy Associate Chief Information Officer, Business Integration

CORRECTIVE ACTION MONITORING PLAN: N/A

CORRECTIVE ACTION #2C: We agree with, and have implemented, the recommendation to ensure estimated and actual pre-award dates are consistently tracked. To ensure consistent tracking of estimated and actual pre-award dates for systems development projects, the Treasury Information Processing Support Services (TIPSS) Program Branch has enhanced the standard Acquisition Plan to better reflect estimated and actual pre-award dates. The new tracking tool identifies the major milestones with both the planned and actual completion dates.

The Office of Modernization Acquisition continues to follow the instruction MSB-TMPL-Pre-Award Timeline Template, dated March 11, 2004. This template captures scheduled and actual start and completion dates associated with activities required to award task orders or major modifications to an existing task order.

IMPLEMENTATION DATE: Completed May 16, 2007. These are ongoing activities.

RESPONSIBLE OFFICIAL: Director, Procurement

CORRECTIVE ACTION MONITORING PLAN: The TIPSS Program Branch and the Office of Modernization Acquisition will use the internal management review process to ensure consistent use of these tools.

RECOMMENDATION #3: To improve monitoring of contractor performance, the Chief Information Officer and the Chief, Agency-Wide Shared Services, should:

- A. Complete development of additional Total Information Processing Support Services performance-based statement of work templates to include all milestones.
- B. Ensure improvements and training opportunities for the use of performance standards are identified and coordinate with other IRS organizations to encourage the use of performance standards for systems development task orders outside of the control of the Modernization and Information Technology Services organization.
- C. Ensure Modernization projects consistently prepare performance monitoring plans, e.g., Task Order Monitoring Plans, Quality Assurance Surveillance Plans, etc.
- D. Collect and disseminate guidance for documenting contractor performance and coordinate with other IRS organizations to communicate the importance of documenting contractor performance for systems development task orders outside of the control of the Modernization and Information Technology Services organization.



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CORRECTIVE ACTION #3A: We agree with, and have implemented, the recommendation to complete development of additional Total Information Processing Support Services (TIPSS) performance-based statement of work templates to include all milestones. The current TIPSS Performance Work Statement (PWS) template is being tailored to meet each of the Enterprise Life Cycle (ELC) milestones based on customer needs. The newly created Operations & Maintenance (O&M) template was released as a draft version on March 08, 2007. The template was further enhanced to incorporate Milestones 2-6 (IRS ELC & O&M Programs) on May 23, 2007. This replaces previous versions of the template. The TIPSS Program Branch is currently trying to identify a new requirement to use the IRC ELC & O&M Program template to work through any potential issues. After the template has been successfully used and revised based on the lessons learned from the test acquisition, it will be used as the standard O&M PWS Template. Once the O&M template is finalized, the TIPSS Program Branch will work with its customers to identify whether any additional PWS templates are needed to meet their needs.

IMPLEMENTATION DATE: Completed May 23, 2007. These are ongoing activities.

RESPONSIBLE OFFICIAL: Director, Procurement

CORRECTIVE ACTION MONITORING PLAN: N/A

CORRECTIVE ACTION #3B: We agree with the recommendation to ensure improvements and training opportunities for the use of performance standards are identified and coordinated with other IRS organizations to encourage the use of performance standards for systems development task orders outside of the control of the MITS organization. IRS Procurement will continue to emphasize to Office Directors and Branch Chiefs the use of performance-based acquisitions, which includes the Quality Assurance Surveillance Plan that contains the measures and standards that must be monitored. This is emphasized in the courses, Seven Steps to Performance-Based Acquisition, and Six Disciplines of Performance-Based Management. Also, Procurement will continue to emphasize this in the COTR training course. In addition:

- Procurement will update their intranet website to include links to sample monitoring plan templates under the “How To” module and the Procurement Forms, Reports, and Templates module. The “Performance-Based Module” and the “How To” module will be updated to contain a link to the “The Six Disciplines of Performance-Based Management”.
- Procurement 101, a basic guide for Procurement customers, is currently under development and will reference performance-based links to applicable areas on the Procurement website and other Performance-Based Contracting (PBC) guidance as applicable.



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- Quarterly Customer Service Days, a staffed IRS Procurement kiosk set up in the New Carrollton Federal Building (NCFB) and the IRS National Office lobbies, will provide Procurement contact information for IRS organizations seeking to obtain assistance with contractor performance monitoring.
- The 2008 Acquisition Planning Conference will include a performance-based contracting seminar with a focus on performance monitoring.

Procurement will provide training and improvement opportunities for IRS personnel, but cannot require participation in those activities. Individual managers make the determination based on employees' work assignments and developmental needs.

IMPLEMENTATION DATE: June 1, 2008

RESPONSIBLE OFFICIAL: Director, Procurement

CORRECTIVE ACTION MONITORING PLAN: Customer feedback from the Acquisition Planning Conference, Quarterly Customer Service Days, and all TAI training courses will be monitored and considered for further improvements.

CORRECTIVE ACTION #3C: We agree with the recommendation to ensure Modernization projects consistently prepare performance monitoring plans (e.g., Task Order Monitoring Plans, Quality Assurance Surveillance Plans, etc.) and will work with projects to ensure implementation of current policy. For Modernizations projects, the ELC requires project managers to develop a Project Management Plan (PMP), which is a milestone exit requirement. The PMP templates include sections for Configuration Management, Task Order Monitoring, Quality Assurance, and other plans.

In FY 2007, the IRS has continued to enhance and improve the governance and project control of its IT portfolio. As part of these improvements, additional project oversight has been achieved through project health assessments, expanded project control reviews, and expanded governance by Executive Steering Committees (ESCs). Further improvements in 2007 include expansion of governance boards at levels below the ESCs. These activities have significantly increased the IRS' ability to ensure projects are following the appropriate processes, including the ELC, and therefore, the IRS has already completed the additional activities requested.

IMPLEMENTATION DATE: Completed April 30, 2007. These are ongoing activities.

RESPONSIBLE OFFICIAL: Deputy Associate Chief Information Officer, Business Integration

CORRECTIVE ACTION MONITORING PLAN: N/A



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CORRECTIVE ACTION #3D: We agree with the recommendation to collect and disseminate guidance for documenting contractor performance and to coordinate with other IRS organizations to communicate the importance of documenting contractor performance for systems development task orders outside of the control of the MITS organization. Procurement currently provides performance-based contracting best practice guidance to IRS organizations via the Procurement intranet site. In addition, IRS Procurement's Office of Strategic Acquisition Initiatives (SAI) held the Acquisition Planning Conference on March 21-22, 2007. This conference included an Acquisition Planning Seminar entitled "The Six Disciplines of Performance-Based Management," which provided information on performance monitoring.

The Procurement intranet site contains a "Performance-Based Service Acquisition" module and a "How To" module that links to Office of Federal Procurement Policy (OFPP) Guidance – Seven Steps to Performance-Based Acquisition and a performance-based statement of work template. Procurement will update the intranet site to include links to sample monitoring plan templates under the "How To" module and the Procurement Forms, Reports, and Templates module. The "Performance-Based Module" and the "How To" module will be updated to contain a link to the "The Six Disciplines of Performance-Based Management".

We will ensure that all organizations are aware of the information available on the IRS Procurement intranet site, and will add a question and answer to the Frequently Asked Questions (FAQs) emphasizing the importance of performance monitoring and referencing the performance-based information and monitoring plan templates. Also, we will issue a communication to inform all IRS employees that performance monitoring information is available through the Procurement site.

In addition, we are working on several initiatives that will assist with successful contractor performance monitoring:

- Procurement 101, a basic guide for Procurement customers, is currently under development and will reference performance based links to applicable areas in the Procurement website and other PBC guidance as applicable.
- Quarterly Customer Service Days, a staffed IRS Procurement kiosk set up in the NCFB and National Office lobbies, will provide Procurement contact information for IRS organizations seeking to obtain assistance with contractor performance monitoring.
- The 2008 Acquisition Planning Conference will include a performance-based contracting seminar with a focus on performance monitoring.

IMPLEMENTATION DATE: June 1, 2008

RESPONSIBLE OFFICIAL: Director, Procurement



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CORRECTIVE ACTION MONITORING PLAN: Timely completion of the following activities will be monitored to ensure best practice guidance for documenting contractor performance is available for systems development task orders outside the control of the MITS organization.

- Website Updates – August 1, 2007
- FAQ Update – September 30, 2007
- IRS Newsflash – September 30, 2007
- Procurement 101 – December 30, 2007
- Acquisition Planning Conference – May 30, 2008

RECOMMENDATION #4: To improve consistency of contract negotiation and management practices between Modernization and non-Modernization systems development task orders, the Chief Information Officer and the Chief, Agency-Wide Shared Services, should:

- A. Ensure program and project managers are aware of the availability of multi-year funding for non-Modernization systems development to further enable the use of firm fixed-price contracting.
- B. Ensure smaller, low-risk projects are not overburdened by excessive internal controls by establishing criteria (e.g., cost, risk, dependencies, etc.) for applying Modernization contract negotiation and management practices to non-Modernization systems development activities. Several practices that should be considered include:
 - Use of the full Enterprise Life Cycle versus the Enterprise Life Cycle-Lite.
 - Appropriate use of milestone-based, performance-based statements of work with performance standards and surveillance plans versus schedule-based work requests to define work.
 - Preparation and tracking of estimated and actual pre-award dates versus no requirement for tracking estimated and actual pre-award dates.
 - Documenting and tracking pre-negotiation issues to resolution versus no process to document or track pre-negotiation issues.

CORRECTIVE ACTION #4A: We agree with the recommendation to ensure program and project managers are aware of the availability of multi-year funding for non-Modernization systems development to further enable the use of firm fixed-price contracting. MITS Financial Management Services will work with the Associate Chief Information Officers to assess their needs for multi-year funding and add the appropriate amount of IT Modernization, Vision & Strategy (MV&S) funds into the 2-year budget appropriation. In addition, we will assess whether the amount should be adjusted at the start of each budget cycle. This procedure will be



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included in the budget cycle document by October 12, 2007, to communicate this change to program and project managers.

IMPLEMENTATION DATE: November 1, 2007

RESPONSIBLE OFFICIAL: Director, Financial Management Services

CORRECTIVE ACTION MONITORING PLAN: We enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.

CORRECTIVE ACTION #4B: We agree with, and have implemented, the recommendation to ensure smaller, low-risk projects are not overburdened by excessive internal controls by establishing criteria (e.g., cost, risk, dependencies, etc.) for applying Modernization contract negotiation and management practices to non-Modernization systems development activities. Interim Guidance, signed by the Chief Information Officer and dated May 15, 2007, establishes that the full ELC will supersede the ELC-Lite.

The TIPSS Program Branch has established Standard Operating Procedures and created templates to streamline the acquisition process. These processes are in a constant state of evaluation and improvement to provide the best customer service, while ensuring the high quality of services being acquired. Smaller, low-risk projects use these same procedures to acquire a higher level of service without the impact to their schedules and without excessive internal controls.

The TIPSS Program Branch is committed to increasing the use of performance-based acquisitions. The use of appropriate milestone-based performance work statements has been facilitated by the TIPSS Templates, expert contractor support, and additional training for the staff. The TIPSS Program Branch is trying to move from level of effort, work request driven task orders, wherever practicable, in order to provide more fixed price completion activities in an effort to better service the customers' needs and manage their funds more effectively.

The Office of Modernization Acquisition continues to use milestone-based, performance-based statement of work templates with performance standards.

The TIPSS Program Branch has enhanced the standard Acquisition Plan to better reflect estimated and actual pre-award dates. The new tracking tool identifies the major milestones with both the planned and actual completion dates.

The Office of Modernization Acquisition continues to follow the instruction MSB-TMPL-Pre-Award Timeline Template, dated March 11, 2004. This template is used to capture scheduled



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and actual start and completion dates associated with activities required to award task orders or major modifications to an existing task order.

Currently, the TIPSS Program Branch documents all pre-negotiation issues in the Pre-negotiation Memorandum. These issues are typically listed in an attachment and include all technical issues identified by the customer in the technical evaluation report, cost and price issues, and any other potential negotiation topics identified by the Contracting Officer. The resolution of each of these issues is tracked in the Price Negotiation Memorandum in the appropriate section. The TIPSS Program Branch is currently working with the Office of Modernization Acquisition to explore the advantages of their current pre-negotiation tracking tool and the possibility of incorporating it into the TIPSS process.

The Office of Modernization Acquisition continues to follow OMA-PD-Negotiation Process, dated February 22, 2005, documenting the negotiation process. The process also includes documenting and tracking pre-negotiation issues to resolution in the Price Negotiation Memorandum.

IMPLEMENTATION DATE: Completed June 1, 2007. These are ongoing activities.

RESPONSIBLE OFFICIAL: Director, Procurement

CORRECTIVE ACTION MONITORING PLAN: The latest versions of the standard operating procedures are currently under review at the Branch level. This review and enhancement process will be ongoing during the entire life cycle of the TIPSS-3 contracts whenever new enhancements are identified by the process improvement team. In addition, increased oversight by the pre-award management staff will help identify requirements that can be further streamlined to reduce any excessive internal controls when applicable.

The TIPSS Program Branch has created a Tiger Team to handle all revisions to existing templates, creation of new PWS templates, and the identification of areas to improve the current processes to utilize performance-based service acquisitions (PBSA) to the maximum extent practicable. The TIPSS Program Branch intends to conduct more outreach and training sessions to their major customer base in an effort to promote PBSAs. These training sessions began in November 2006, and were conducted through May 2007. This is to aid the customers' transition from cost plus fixed fee (CPFF) level of effort to a performance-based fixed price environment whenever practicable.

We will use the internal management review process to ensure that changes to the Acquisition Plan are being used properly. This review process will also be used to update Acquisition Plans that were previously created prior to approving the customer's Task Placement Request Memo. Based on the results of this enhancement, the TIPSS Program Branch will explore using the Pre-Award Timeline Template to enhance the process further and capture the costs associated with



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updating the COMANS system to track these dates and provide metrics on the overall program's ability to meet the proposed dates.

Managers will utilize opportunities, such as staff meetings, to reiterate the policy regarding Pre-negotiation and Price Negotiation Memorandum documentation. During the TIER review process prior to award, emphasis will be placed on ensuring pre-negotiation issues are adequately documented and tracked to resolution.

- TIPSS Acquisition Plan template – May 15, 2007
- IRS ELC & O&M Program template – May 23, 2007
- PWS Outreach and Training sessions – May 30, 2007

As the customer identifies smaller, low-risk projects appropriate for applying Modernization contract negotiation and management practices, Procurement will ensure the contracting officers are applying the required contracting rules and regulations, as defined in the FAR, for the low-risk projects. We are ensuring compliance with the appropriate procedures through the established review process.