

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Inflation Reduction Act: Contract Performance Oversight and Compliance With Expenditure Restrictions Need Improvement

March 10, 2025

Report Number: 2025-208-008

HIGHLIGHTS: Inflation Reduction Act: Contract Performance Oversight and Compliance With Expenditure Restrictions Need Improvement

Final Audit Report issued on March 10, 2025

Report Number 2025-208-008

Why TIGTA Did This Audit

In August 2022, Congress enacted the Inflation Reduction Act (IRA), giving the IRS approximately \$57.8 billion (after rescissions) over the next decade to improve the administration of the tax system and the services provided to taxpayers.

Of the available funding, \$4.8 billion is designated for business systems modernization (BSM). These funds should be used only to support modernization programs, such as developing technology that provides more personalized customer service. IRA prohibits BSM funding from being used to operate and maintain legacy systems, which are outdated computer systems, programming languages, or application software.

This audit was initiated to assess the effectiveness of management oversight of selected IRA information technology contracts.

Impact on Tax Administration

Not being able to identify IRA information technology contracts could result in inefficient use of resources, potential for purchasing duplicate or inferior products or services, and noncompliance with IRA funding restrictions. Inadequate documentation increases the risk that management makes uninformed decisions and could lead to improperly paid invoices. Without supporting documentation, it is difficult to identify potential fraud or regulatory compliance.

What TIGTA Found

Due to recordkeeping limitations, the IRS was unable to locate a complete list of contracts associated with the 74 legacy systems we selected. Instead, the IRS provided a list of about 1,500 potentially related contracts for 40 legacy systems. However, the IRS had no assurances that the contracts were associated with the legacy systems. The IRS was unable to provide any contracts related to the remaining 34 legacy systems.

In addition, financial controls over IRA BSM spending are ineffective. We analyzed contract line-item spending in IRA BSM-funded information technology contracts and determined that the IRS inappropriately spent \$4.6 million of IRA BSM funding for the operations and maintenance of 3 legacy systems. Based on these results, we estimate that the IRS inappropriately spent approximately \$21 million of IRA BSM funding for the operations and maintenance of 14 legacy systems.

We also reviewed a judgmental sample of seven IRA BSM-funded information technology contracts and determined that they were competitively awarded. However, none of the seven contract files maintained final pre-award documentation to support the complete history of the contract or met quality standards as required. Further, we reviewed a judgmental sample of 20 post-award invoices, totaling nearly \$42 million, and determined that each was missing a quality assurance inspection. While the receipt documentation for 15 invoices was sufficient, 5 invoices had inadequate documentation, *e.g.*, document had incomplete billing periods.

What TIGTA Recommended

We made three recommendations to the Chief Information Officer to identify and correct the authorized funding source for all information technology contracts that inappropriately used IRA BSM funding for operations and maintenance costs of legacy systems; implement a process to ensure compliance with IRA funding use restrictions; and update guidance to align with IRA provisions of when BSM funding can be used. We also made three recommendations to the Chief Procurement Officer to develop a process to track contracts by legacy system as well as a quality review process to ensure that all final pre-award and post-award documentation is properly maintained, stored, and meets quality standards.

The IRS agreed with all six recommendations and plans to track legacy system contracts, correct fund codes, update guidance and training to comply with the IRA, and develop quality review processes.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20024

March 10, 2025

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in cursive script, reading "Danny Verneuille".

FROM: Danny Verneuille
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Inflation Reduction Act: Contract Performance Oversight and Compliance With Expenditure Restrictions Need Improvement (Audit No.: 2024208006)

This report presents the results of our review to assess the effectiveness of management oversight of selected Inflation Reduction Act (IRA) information technology contracts.¹ This review was part of our Fiscal Year 2024 Annual Audit Plan and addresses the major management and performance challenge of *Managing IRA Transformation Efforts*.

Management's complete response to the draft report is included as Appendix III. If you have any questions, please contact me or Linna Hung, Acting Assistant Inspector General for Audit (Security and Information Technology Services).

¹ Pub. L. No. 117-169, 136 Stat. 1818.

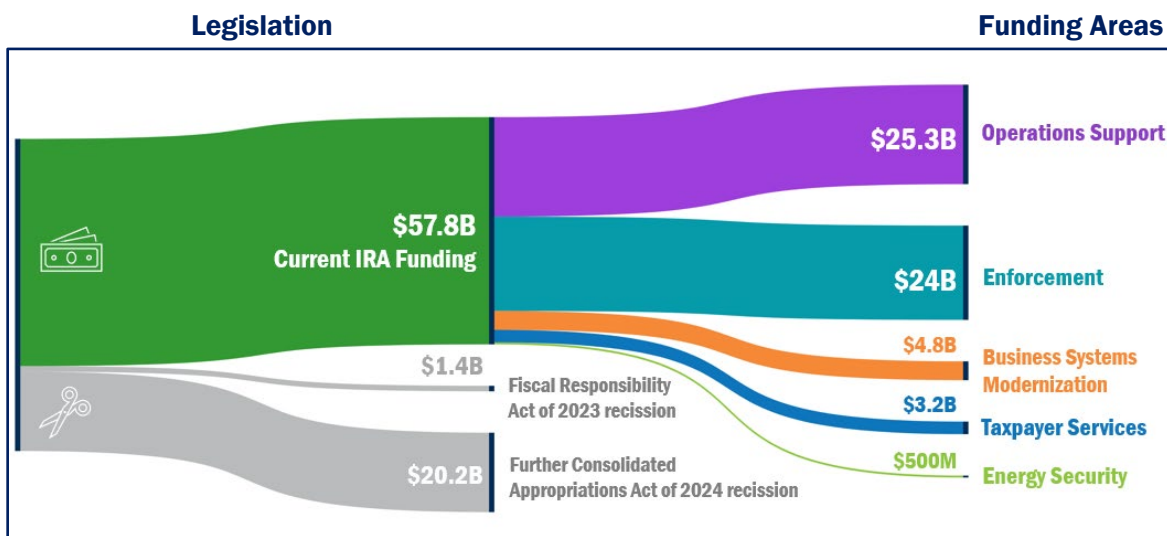
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Background

In August 2022, Congress enacted the Inflation Reduction Act (IRA), giving the Internal Revenue Service (IRS) approximately \$57.8 billion (after rescissions) to improve the administration of the tax system and the services provided to taxpayers.¹ In addition to the rescissions, the American Relief Act, 2025, which provides appropriation funding to federal agencies through March 14, 2025, freezes another \$20.2 billion in IRA enforcement funds.² IRA funding is designated in the areas of operations support, enforcement, business systems modernization (BSM), taxpayer services, and energy security. Figure 1 provides the current IRA funding by area.

Figure 1: Legislation and IRA Funding by Area



Source: TIGTA's analysis of related legislation affecting funding areas.

The Office of Management and Budget directs federal agencies to report and categorize information technology investment costs into either (1) operations and maintenance (O&M), or (2) development, modernization, and enhancement.³ Annually, IRS business units develop a financial plan to support the anticipated information technology investment spending for the upcoming fiscal year. The financial plan includes a general and a detailed spend plan. According to management from the Information Technology organization's Financial Management Services (FMS), the Information Technology organization collaborates with the Transformation and Strategy Office to develop the general spend plan, which is submitted to the Chief Information Officer for approval. Upon approval, the FMS works with each business unit to develop the detailed spend plan.

¹ Pub. L. No. 117-169, 136 Stat. 1818. The Fiscal Responsibility Act of 2023, Pub. L. No. 118-5, 137 Stat. 10 (rescinded \$1.4 billion), and the Further Consolidated Appropriations Act, 2024, Pub. L. No. 118-47, 138 Stat. 460 (rescinded \$20.2 billion).

² Pub. L. No. 118-158, 138 Stat. 1722. The American Relief Act, 2025, carries forward the rescission of \$20.2 billion contained in the Further Consolidated Appropriations Act, 2024, of amounts provided to the IRS by the IRA.

³ Office of Management and Budget, *FY [Fiscal Year] 22 IT [Information Technology] Budget – Capital Planning Guidance* (November 2020). See Appendix IV for a glossary of terms.

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In addition, several stakeholders, including the Office of the Chief Procurement Officer (OCPO), the FMS, the requesting business unit, and the Information Technology organization’s Strategic Supplier Management, provide oversight of information technology acquisitions. The OCPO provides procurement services for the entire life cycle of an acquisition. The FMS provides guidance on budget and financial policy and information technology expense management. While the requesting business unit provides the technical knowledge to identify the requirements for the procurement, Strategic Supplier Management validates that pre-award documentation accurately describes the procurement. Other stakeholders involved in the acquisition life cycle include the Contracting Officer (CO) and the Contracting Officer’s Representative. The CO has the authority to bind the government to contracts and obligate funds. Only the CO can execute, modify, and terminate a contract. Once a contract has been awarded, the CO appoints a Contracting Officer’s Representative from the requesting business unit to perform specific technical and administrative contract tasks.

The IRS’s acquisition life cycle is the documented process of required activities to procure products or services. It includes three main phases: pre-award, award, and post-award. Figure 2 highlights the key activities during each phase of the acquisition life cycle.

Figure 2: Summary of the Acquisition Life Cycle Phases

Planning	The business unit defines the requirements, conducts market research, drafts the acquisition strategy, and prepares the acquisition package.	PRE-AWARD
Pre-Solicitation	The CO posts publicly the draft solicitation, and the business unit addresses any comments from the marketplace on the draft solicitation.	
Solicitation	The CO posts publicly the final solicitation and addresses questions or amends the solicitation, as needed.	
Evaluation	The business unit assesses the contractor’s proposal based on the technical requirements defined in planning. The CO reviews the contractor’s proposal for price reasonableness and determines the contractor’s future responsibilities.	
Award	The CO obtains the award approvals, performs negotiations, awards the contract, appoints the Contracting Officer’s Representative, and performs the award kick-off meetings.	
Post-Award	Both the CO and the Contracting Officer’s Representative must monitor the contractor’s performance to ensure contract requirements are being met.	

Source: TIGTA’s summary of IRS acquisition life cycle.

Results of Review

Legacy System Contracts Could Not Be Located

Due to recordkeeping limitations, the IRS was unable to locate a complete list of contracts associated with selected legacy systems. To track IRA BSM spending, we selected and reviewed a statistically valid sample of 74 legacy systems from a population of 335 legacy systems as of December 2023 and requested that the IRS provide any relevant contracts associated with our sample.

FMS management provided a list of approximately 1,500 potentially related contracts for 40 (54 percent) legacy

Approximately 1,500 contracts were reported to be potentially related to 40 (54 percent) legacy systems, while **no contracts were provided for the remaining 34 (46 percent) legacy systems.**

systems in our sample. FMS management stated that they identified the contracts by searching for information technology investments (not systems) categorized as legacy. However, FMS management was not certain that these contracts were actually associated with the legacy systems in our sample. As a result, we were unable to rely on the information provided. FMS management was unable to provide any contracts for the remaining 34 (46 percent) legacy systems in our sample.

The Office of Management and Budget's directive on managing information as a strategic resource requires that the Chief Information Officer establish a plan for its information technology that will achieve its objectives efficiently and effectively.⁴ According to the Government Accountability Office's standards for internal control, management is required to design the information system and controls to ensure that objectives are achieved.⁵ In addition, documentation of all transactions should be maintained and readily available.

The IRS Procurement System does not contain a data element field that identifies or associates a system to its related contract(s). This results in personnel having to perform manual searches to identify the related contract(s). This could result in inefficient use of resources and the potential for purchasing duplicate or inferior products or services.

Recommendation 1: The Chief Procurement Officer should develop and implement, in collaboration with the Chief Information Officer, a process that includes educating and training stakeholders to track contracts by legacy system.

Management's Response: The IRS agreed with this recommendation. The OCPO, in collaboration with the Office of the Chief Information Officer, will develop education and training for stakeholders using a future contract writing system to track contracts by legacy system. Anticipated implementation of education and training is Fiscal Year 2027, upon implementation and transition to the future contract writing system. Additionally, the IRS is conducting a discovery of different types of reporting elements necessary to meet the mission in the development of its Procurement Writing System. During Fiscal

⁴ Office of Management and Budget, Circular A-130, Managing Information as a Strategic Resource (July 2016).

⁵ Government Accountability Office, GAO-14-704G, Standards for Internal Control in the Federal Government (September 2014).

Year 2025, the OCPO will work with current procurement contract writing system administrators and the Office of the Chief Information Officer to determine the most efficient method of categorizing new legacy system contracts until launch of the new system.

Financial Controls Over Inflation Reduction Act Business Systems Modernization Spending Are Ineffective

IRS O&M spending for information technology infrastructure increased 35 percent from \$2 billion in Fiscal Year 2019 to \$2.7 billion in Fiscal Year 2023. Because the IRS was unable to provide the contracts for the 74 legacy systems in our sample, we analyzed all contract line-item spending from August 2022 through September 2023, to identify whether IRA BSM funding was used for O&M costs of legacy systems.⁶ Our analysis included searching for keywords, *e.g.*, systems identified as legacy systems. We identified 26 contract line-items totaling \$129 million in IRA BSM funding, of which \$4.6 million (4 percent) was inappropriately spent for the O&M of 3 legacy systems. Based on these results, we estimate that the IRS inappropriately spent approximately \$21 million of IRA BSM funding for O&M costs of 14 legacy systems.⁷ For the remaining 71 legacy systems, we did not identify IRA BSM funding spent for O&M costs.

According to restrictions articulated in the IRA, BSM funding should be used only to support modernization programs, such as developing technology that provides more personalized customer service. The IRA prohibits using BSM funding for the O&M of legacy systems. In addition, the Internal Revenue Manual states that the OCPO is responsible for processing contract obligations to comply with federal statutes and regulations.

In April 2024, we met with Information Technology organization management to discuss controls in place to track legacy systems, along with their respective contracts, and the IRA prohibiting the use of BSM funding for the O&M of legacy systems. Based on our discussion, we determined that management from the Information Technology organization, who are key stakeholders in oversight of information technology acquisitions, were not aware of the IRA prohibition. Information Technology organization management then explained they have a process in place that would ensure that IRA BSM funding is spent only on modernization programs and not legacy systems. They stated that internal order codes are used to distinguish between the O&M and development, modernization, and enhancement spending, and that these internal order codes are reviewed and validated to ensure that purchases of products or services use appropriate funding.

However, we found this process to be ineffective because the internal order codes are assigned to modernization programs at the information technology investment level, not at the system level. In addition, this process does not include a review to determine whether contract tasks are for O&M or development, modernization, and enhancement. While the Information Technology organization issued guidance in June 2020 that authorizes instances where BSM funding could

⁶ The contract line-item spending was extracted from the Procurement System and was supplemented with contract data from SAM.gov and the Federal Procurement Data System.

⁷ When projecting the results of our statistical sample, we are 95 percent confident, using the empirical likelihood interval, that the actual amount is between \$5,095,480 and \$54,807,292. We are also 95 percent confident that the actual number of legacy systems is between 4 and 35 systems.

be used, *e.g.*, implementation of modernized tools, infrastructure, and capabilities, this guidance has not been updated to align with the IRA prohibiting the use of BSM funds for the O&M of legacy systems.

Prior to the enactment of the IRA, we recommended that the IRS capture O&M costs for its current information technology infrastructure at the system and subsystem level.⁸ In the response to that recommendation, the IRS stated that it believed it was sufficient to continue to track O&M costs using the internal order codes that do not capture costs at the system and subsystem level, but rather at the project/program level. Because the IRS did not implement our prior recommendation, it still does not have a process to track O&M costs at the appropriate levels.

Not being able to identify IRA information technology contracts could result in noncompliance with IRA funding restrictions. It also demonstrates that the IRS did not effectively implement the IRA provisions, which resulted in BSM funding spent inappropriately for O&M costs of legacy systems. IRA BSM funding is limited and is estimated to be exhausted by Fiscal Year 2026. With the IRS misspending it on legacy systems, it may not be able to complete some of its modernization efforts.

The Chief Information Officer should:

Recommendation 2: Identify and correct the authorized funding source for all information technology contracts that inappropriately used IRA BSM funding for O&M costs of legacy systems.

Management's Response: The IRS agreed with this recommendation. The Chief Information Officer will review and correct the authorized funding source codes for all information technology contracts.

Recommendation 3: Develop and implement, in collaboration with the Chief Procurement Officer, a process that includes educating and training stakeholders to ensure compliance with the IRA prohibiting the use of BSM funds for the O&M of legacy systems.

Management's Response: The IRS agreed with this recommendation. The Chief Information Officer will conduct training for Information Technology organization Contracting Officer's Representatives on IRA funding restrictions regarding the use of BSM funds.

Recommendation 4: Update the Information Technology organization guidance to align with IRA provisions of when BSM funding can be used.

Management's Response: The IRS agreed with this recommendation. The Chief Information Officer will update the Information Technology organization guidance to incorporate IRA provisions involving BSM funding.

⁸ TIGTA, Report No. 2020-20-044, [Legacy Systems Management Needs Improvement](#) (August 2020).

Inflation Reduction Act Business Systems Modernization Contract Files Are Incomplete

Between August 2022 and December 2023, the IRS awarded 412 IRA information technology contracts, of which 73 contracts used BSM funding.⁹ We selected and reviewed a judgmental sample of 7 contracts from the 73 identified contracts.¹⁰ We determined that all seven IRA BSM-funded information technology contracts were awarded competitively. For each contract, more than one vendor was sought to bid for the contract. However, we determined that pre-award and post-award documentation of IRA BSM-funded information technology contracts were either missing or inadequate.

Pre-award documentation

Contract files must document the complete history of the contract throughout its life cycle. The documents must be finalized, *e.g.*, signed and approved, and meet quality standards, *e.g.*, include a narrative to support analysis. To determine whether pre-award documentation is maintained in the respective contract file, we requested the following documents 1) market research, 2) cost estimate, 3) past performance review, and 4) acquisition plan. We determined that none of the contract files for the seven IRA BSM-funded information technology contracts maintained the complete history or met quality standards as required. Specifically, we found that 6 (86 percent) of 7 contracts had pre-award documentation in the Procurement System; however, 1 contract was missing pre-award documentation for market research and the acquisition plan.

For the 7 contracts to successfully meet quality standards, all 4 types of pre-award documentation must be completed in accordance with quality standards. Quality standards include, but are not limited to, the reviewer's and approver's signature, documentation of all required elements for the cost estimate, and the review of past performance. Of the seven IRA BSM-funded information technology contracts reviewed, we determined that none contained all pre-award documentation that was completed in accordance with quality standards:¹¹

- 6 (86 percent) contract files did not include the market research, the capabilities of potential vendors, and when the market research was performed.
- 6 (86 percent) contract files did not include the cost estimate that included all required elements such as a cost estimate methodology.
- 6 (86 percent) contract files did not include the required past performance review.
- 1 (14 percent) contract file did not include the acquisition plan signed by the reviewer and approver or were not required.

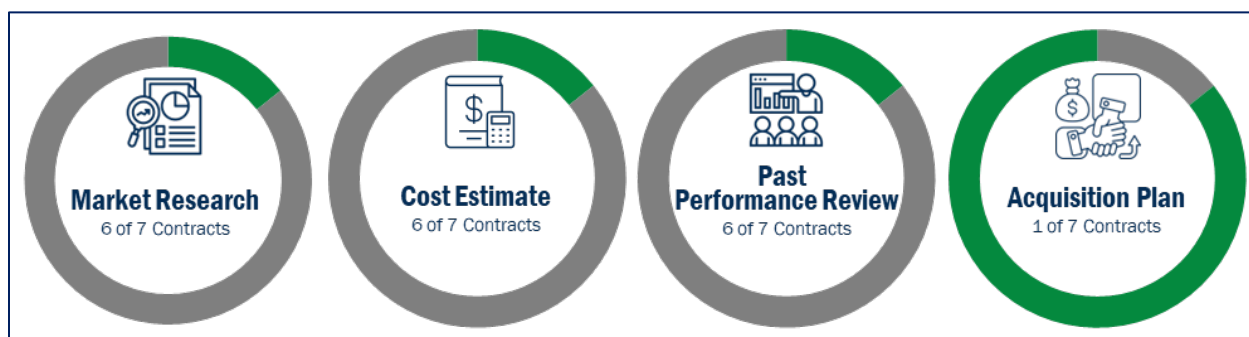
Figure 3 summarizes our review of the pre-award documents not meeting quality standards for the seven selected IRA BSM-funded information technology contracts.

⁹ The 73 information technology contracts are contracts that used IRA BSM funding for at least 50 percent of the total value of the contract.

¹⁰ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

¹¹ The missing market research and the acquisition plan are included in the results of our review for quality standards.

Figure 3: Summary of Pre-award Documents Not Meeting Quality Standards



Source: TIGTA's analysis of the quality of the finalized pre-award documentation.

For information technology contracts, there are several federal, department, and agency-specific regulations and policies that govern what documentation is required to be in the Procurement System as well as the quality standards that must be met within the documentation.¹²

For one contract missing pre-award documentation, *e.g.*, market research and acquisition plan, the IRS stated that the CO did not send the documents to the document library for them to be uploaded to the Procurement System due to human error. OCPO personnel stated that they perform a biannual compliance review by selecting a random sample of completed contracts valued below \$10 million to ensure that all required documents are in the Procurement System and that they meet quality standards. However, there is no policy requiring a quality review to be performed to ensure that all required documents are uploaded to the Procurement System and meet quality standards before each contract is awarded.

We previously reported a similar finding that presolicitation and award documents were not readily accessible or missing from the contract files for information technology hardware and software contracts.¹³ Our prior review determined that the Procurement System did not contain 329 (70 percent) of the 470 required documents. The IRS agreed with our recommendation to ensure that contract file reviews are timely and regularly performed by the COs and assigned OCPO management to confirm that documentation is complete, organized, current, consistent, and stored electronically.

Because pre-award documentation is missing or inadequate, the complete history of the contract is not documented in the contract file. This increases the risk of management making decisions based on incomplete information and procuring information technology products or services from vendors with substandard past performance.

¹² Regulations, policies, and procedures include: the Federal Acquisition Regulation 1.602-1, *Authority* (August 2022); the Department of the Treasury Acquisition Procedures 1010.002, *Procedures*, and 1007.7001, *Policy* (June 2022); the Treasury Standard Form 1011, *Department of the Treasury Acquisition Plan Template* (October 2018); the IRS Acquisition Policy, Procedures, Guidance, and Information 1015.9005, *Preparation of the Source Selection Plan* (November 2019); and the IRS Acquisition Policy 1004.802-90, *Electronic Contract Files* (January 2023).

¹³ TIGTA, Report No. 2019-20-038, [Controls Over Information Technology Procurements Need Improvement](#) (June 2019).

Recommendation 5: The Chief Procurement Officer should develop a quality review process to ensure that all final pre-award documentation is maintained in the Procurement System and meets quality standards prior to awarding the contract.

Management's Response: The IRS agreed with this recommendation. The Chief Procurement Officer will develop a quality review process to review pre-award documentation in the Procurement Writing System prior to contract awards.

Post-award documentation

For a post-award package to be complete, it must contain documentation for both receipt, *e.g.*, the COR [Contracting Officer's Representative], End User, Technical Point of Contact Checklist (TPOC Checklist), and acceptance, *e.g.*, quality assurance inspection reports, of products or services. To determine whether the receipt of products or services was verified, and vendor invoices were accepted prior to authorizing payments, we requested that OCPO management provide the invoices received for Fiscal Year 2023 for our judgmental sample of seven IRA BSM-funded information technology contracts. OCPO personnel provided 44 invoices.

We selected and reviewed a judgmental sample of 20 from these 44 invoices and found that the receipt and acceptance (R&A) packages associated with all 20 invoices, totaling nearly \$42 million, were incomplete. Specifically, we found that 5 (25 percent) invoices had receipt documentation stored in the Procurement System that was inadequate, *e.g.*, the TPOC Checklist had incomplete billing periods, an incorrect contract number, or missing signatures. The receipt documentation was sufficient for the remaining 15 (75 percent) invoices. We also found that all 20 invoices were missing the quality assurance inspection report required for acceptance documentation.

IRS Acquisition Policy requires that the Contracting Officer's Representative, the end user, or a third party maintain documentation of receipt supporting that the products or services were received for the specified period of performance as required in the contract. The policy also requires that the Contracting Officer's Representative, the end user, or an otherwise qualified individual perform a quality review of the products or services provided. The quality review should be completed prior to acceptance and address, at a minimum, when the review took place, what was reviewed, and the results of review. In addition, the Internal Revenue Manual states that R&A documentation should be maintained in the Procurement System and adequately support the billed invoice amounts.

The OCPO does not have a quality review process to ensure that R&A documentation is stored in the Procurement System and meets quality standards. While OCPO management provided the TPOC Checklist to support the quality assurance inspection report, *i.e.*, acceptance, the TPOC Checklist does not provide any of the required elements for acceptance.

We previously reported a similar finding where controls over procurement documentation were insufficient.¹⁴ We found that invoice payments could not be fully verified due to insufficient

¹⁴ TIGTA, Report No. 2021-20-046, [Select Post-Award Financial Management and Documentation Controls for Information Technology Service Contracts Need Improvement](#) (August 2021). Our sample was selected using a 95 percent confidence level, a 5 percent expected error rate, and ± 5 percent precision factor. When projecting the results of our stratified statistical sample, we are 95 percent confident that the actual total number is between 5,549 and 7,454 invoice payments that were not supported by adequate R&A documentation.

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R&A documentation and estimated that the IRS may not have documentation to support 6,502 invoice payments made from October 2018 through June 2020.

Ensuring that adequate R&A documentation is complete and maintained is a key internal control that reduces the risk of improper payments. When invoices are not properly verified and supporting documentation is not maintained, potential fraud or regulatory compliance is difficult to identify. Consequently, taxpayer dollars could be misused or wasted.

Recommendation 6: The Chief Procurement Officer should develop a quality review process to ensure that post-award documentation is stored in the Procurement System and meets quality standards prior to authorizing payment of vendor invoices.

Management's Response: The IRS agreed with this recommendation. The Chief Procurement Officer will develop a quality review process to ensure post award documentation is stored in the Procurement Writing System within 10 days of contract award. The Chief Procurement Officer will collaborate and partner with the Chief Financial Officer to implement post award document reviews prior to invoice payments.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective of this audit was to assess the effectiveness of management oversight of selected IRA information technology contracts. To accomplish our objective, we:

- Obtained an understanding of and determined whether processes and procedures are followed related to select acquisition life cycle pre-award and post-award activities by reviewing federal; Department of the Treasury; and IRS policies, procedures, and guidance, and by interviewing Information Technology organization, OCPO, and business unit personnel.
- Determined whether IRA BSM funding was used on the O&M of legacy systems by reviewing a statistically valid sample of 74 systems from a population of 335 legacy systems as of December 2023.¹ We consulted with TIGTA's contracted statistician who developed and confirmed our statistically valid sample size and projections to the population. We used a statistical sample because we wanted to project to the population on the dollar amount and number of systems where IRA BSM funding was potentially used on the O&M of legacy systems.
- Determined whether required pre-award documentation was maintained in the contract file and met quality standards by reviewing a judgmental sample of 7 contracts from a population of 73 IRA BSM-funded information technology contracts.² We used a judgmental sample because we did not plan to project to the population. The judgmental sample selected provided a representative sample of the population based on type of purchase, *i.e.*, products or services, dollar amount, and type of business, *e.g.*, small business.
- Determined whether Contracting Officer's Representatives are verifying receipt of products or services during post-award activities prior to accepting vendor invoices and authorizing payments by reviewing a judgmental sample of 20 invoices from a population of 44 invoices provided by the OCPO for Fiscal Year 2023 for the same judgmental sample of 7 IRA BSM-funded information technology contracts. We used a judgmental sample because we did not plan to project to the population. The judgmental sample selected provided a representative sample of the population based on invoice volume, amount, and date.

¹ Our sample size was determined by using a 95 percent confidence level, 5 percent expected error rate, and ± 5 percent precision. In TIGTA, Report No. 2024-200-038, [*The IRS Does Not Have Specific Plans to Replace and Decommission Legacy Systems*](#) (August 2024), we reported a population of 334 legacy systems. For the scope of this review, we included a Department of the Treasury legacy system because the IRS holds a contract, is responsible for the associated contract costs, and could potentially pay for O&M costs.

² A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population. The 73 information technology contracts are contracts that used IRA BSM funding for at least 50 percent of the total value of the contract.

Performance of This Review

This review was performed with information obtained from the Information Technology organization located at the New Carrollton Federal Building in Lanham, Maryland, and the OCPO located in Greensboro, North Carolina, during the period December 2023 through October 2024. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Data Validation Methodology

During this review, we relied on data extracted from the System for Awards Management, USAspending.gov, and the IRS's Procurement System that were provided by programmers from TIGTA's Data Center Warehouse. In addition, we relied on funding data obtained from the OCPO's Analytics, Research, and Technology Division. To assess the reliability of the computer-processed data, we evaluated the data by: 1) tracing a sample of IRA information technology contracts to TIGTA's Data Center Warehouse procurement and the OCPO's Analytics, Research, and Technology Division funding data; 2) reviewing documentation about the data and the systems that produced them; and 3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the Government Accountability Office's *Standards for Internal Control in the Federal Government*; and various federal, Department of the Treasury, and IRS policies, procedures, and guidelines related to managing and approving information technology contracts. We evaluated these controls by interviewing Information Technology organization, OCPO, and business unit personnel and by reviewing pre-award and post-award documentation and their funding sources.

Outcome Measures

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

Type and Value of Outcome Measure:

- Funds Put to Better Use – Potential; \$20,819,532 of IRA BSM funding inappropriately spent for O&M costs of 14 legacy systems (see Recommendations 2 through 4).

Methodology Used to Measure the Reported Benefit:

We selected and reviewed a statistically valid sample of 74 legacy systems from a population of 335 legacy systems as of December 2023.¹ Because the IRS was unable to provide the contracts for the 74 legacy systems in our sample, we analyzed all contract line-item spending from Aug. 16, 2022, through Sept. 30, 2023, to identify whether IRA BSM funding was used for O&M costs of legacy systems.² Our analysis included searching for keywords, *e.g.*, systems identified as legacy systems. We identified 26 contract line-items totaling \$129 million in IRA BSM funding, of which \$4,598,941 (4 percent) was inappropriately spent for O&M costs of 3 legacy systems. Based on these results, we estimate that the IRS inappropriately spent \$20,819,532 million of IRA BSM funding for O&M costs of 14 legacy systems. For the remaining 71 legacy systems, we did not identify IRA BSM funding spent for O&M costs.³

Type and Value of Outcome Measure:

- Reliability of Information – Potential; seven IRA BSM-funded information technology contracts that did not maintain pre-award documentation to support the complete history of the contract or meet quality standards (see Recommendation 5).

Methodology Used to Measure the Reported Benefit:

We selected and reviewed a judgmental sample of 7 contracts from a population of 73 IRA BSM-funded information technology contracts.⁴ Contract files must document the complete history of the contract throughout its life cycle. The documents must be finalized and meet quality standards. To determine whether pre-award documentation is maintained in the

¹ Our sample size was determined by using a 95 percent confidence level, 5 percent expected error rate, and ±5 percent precision. In TIGTA, Report No. 2024-200-038, [The IRS Does Not Have Specific Plans to Replace and Decommission Legacy Systems](#) (August 2024), we reported a population of 334 legacy systems. For the scope of this review, included a Department of the Treasury legacy system because the IRS holds a contract, is responsible for the associated contract costs, and could potentially pay for O&M costs.

² The contract line-item spending was extracted from the Procurement System and was supplemented with contract data from SAM.gov and the Federal Procurement Data System.

³ When projecting the results of our statistical sample, we are 95 percent confident, using the empirical likelihood interval, that the actual amount is between \$5,095,480 and \$54,807,292. We are also 95 percent confident that the actual number of legacy systems is between 4 and 35 systems.

⁴ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

respective contract file, we requested the following documents 1) market research, 2) acquisition plan, 3) cost estimate, and 4) past performance review. We determined that none of the contract files for the seven IRA BSM-funded information technology contracts maintained pre-award documentation to support the complete history of the contract or met quality standards.

Type and Value of Outcome Measure:

- Protection of Resources – Potential; \$41,827,354 in invoices paid that did not have post-award documentation to support that the IRS received and accepted the products or services (see Recommendation 6).

Methodology Used to Measure the Reported Benefit:

We selected and reviewed a judgmental sample of 20 invoices, totaling \$41,827,354, from a population of 44 invoices for the same judgmental sample of 7 IRA BSM-funded information technology contracts noted in the previous outcome measure. Complete R&A packages document that the IRS received and accepted the products or services. We determined that none of the R&A packages associated with all 20 invoices were complete.

Management's Response to the Draft Report



CHIEF INFORMATION OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

January 24, 2025

MEMORANDUM FOR ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Rajiv Uppal
Chief Information Officer

Rajiv K. Uppal
Digitally signed by Rajiv K. Uppal
Date: 2025.01.24 09:35:03 -05'00'

Todd A. Anthony
Chief Procurement Officer

Todd A. Anthony
Digitally signed by nmkvb
Date: 2025.01.21 13:41:23 -05'00'

SUBJECT: Draft Audit Report – Inflation Reduction Act: Contract Performance Oversight and Compliance with Expenditure Restrictions Need Improvement (Audit #2024208006)

Thank you for the opportunity to review and comment on the draft audit report and address your observations with the audit team. The IRS appreciates opportunities to improve internal controls and processes related to contract performance oversight and compliance.

Regarding the recommendations to improve contract performance oversight and correct the documentation that enables IRS to track the authorized funding source for all information technology contracts, we generally agree or agree in principle with the audit team's recommendations. We agree with the outcome measures associated with recommendations one through six. Please refer to the attached planned corrective actions for specific details.

The IRS values the continued support and assistance provided by your office. If you have any questions, please contact Angelika S. Sweitzer, Director, Strategic Supplier Management at (202) 384-8618 and/or the Procurement Audit Liaison Team at procurement.audit.mgt.team@irs.gov.

Attachment

**Inflation Reduction Act: Contract Performance Oversight and
Compliance With Expenditure Restrictions Need Improvement**

Attachment

**Audit# 2024208006, Management Oversight of Selected Inflation Reduction Act
Information Technology Contracts.**

RECOMMENDATION 1: The Chief Procurement Officer should develop and implement, in collaboration with the Chief Information Officer, a process that includes educating and training stakeholders to track contracts by legacy system.

CORRECTIVE ACTION 1: The IRS agrees with this recommendation. The Office of the Chief Procurement Officer (OCPO), in collaboration with the Office of the Chief Information Officer (OCIO), will develop education and training for stakeholders utilizing our future contract writing system to track contracts by legacy system. Anticipated implementation of education and training is FY 27, upon implementation and transition to our future contract writing system. Additionally, the IRS is currently conducting a discovery of different types of reporting elements necessary to meet the mission in the development of our procurement writing system. During FY25, OCPO will work with current procurement contract writing system administrators and OCIO to determine most efficient method of categorizing new legacy system contracts until launch of new system.

IMPLEMENTATION DATE: December 15, 2026

RESPONSIBLE OFFICIAL(S): Chief Procurement Officer

RECOMMENDATION 2: The Chief Information Officer (CIO) should identify and correct the authorized funding source for all information technology contracts that inappropriately used IRA BSM funding for O&M costs of legacy systems.

CORRECTIVE ACTION 2: The IRS agrees with this recommendation. The Chief Information Officer will review and correct the authorized funding source codes for all information technology contracts.

IMPLEMENTATION DATE: March 15, 2025

RESPONSIBLE OFFICIAL(S): Associate Chief Information Officer, Strategy & Planning

RECOMMENDATION 3: The Chief Information Officer should develop and implement, in collaboration with the Chief Procurement Officer, a process that includes educating and training stakeholders to ensure compliance with the IRA prohibiting the use of BSM funds for the O&M of legacy systems.

CORRECTIVE ACTION 3: The IRS agrees with this recommendation. The Chief Information Officer will conduct training for IT contracting officer representatives on IRA funding restrictions regarding the use of BSM funds.

IMPLEMENTATION DATE: March 15, 2025

RESPONSIBLE OFFICIAL(S): Associate Chief Information Officer, Strategy & Planning

**Inflation Reduction Act: Contract Performance Oversight and
Compliance With Expenditure Restrictions Need Improvement**

Attachment

Audit# 2024208006, Management Oversight of Selected Inflation Reduction Act Information Technology Contracts.

RECOMMENDATION 4: The Chief Information Officer should update the Information Technology organization guidance to align with the IRA provisions of when BSM funding can be used.

CORRECTIVE ACTION 4: The IRS agrees with this recommendation. The Chief Information Officer will update the Information Technology organization guidance to incorporate IRA provisions involving BSM funding.

IMPLEMENTATION DATE: March 15, 2025

RESPONSIBLE OFFICIAL(S): Associate Chief Information Officer, Strategy & Planning

RECOMMENDATION 5: The Chief Procurement Officer should develop a quality review process to ensure that all final pre-award documentation is maintained in the Procurement System and meets quality standards prior to awarding the contract.

CORRECTIVE ACTION 5: The IRS agrees with this recommendation. The Chief Procurement Officer will develop a quality review process to review pre-award documentation in the Procurement Writing System prior to contract awards.

IMPLEMENTATION DATE: December 15, 2025

RESPONSIBLE OFFICIAL(S): Chief Procurement Officer

RECOMMENDATION 6: The Chief Procurement Officer should develop a quality review process to ensure that post-award documentation is stored in the Procurement System and meets quality standards prior to authorizing payment of vendor invoices.

CORRECTIVE ACTION 6: The IRS agrees with this recommendation. The Chief Procurement Officer will develop a quality review process to ensure post award documentation is stored in the Procurement Writing System within 10 days of contract award. The Chief Procurement Officer will collaborate and partner with Chief Financial Officer to implement post award document reviews prior to invoice payments.

IMPLEMENTATION DATE: December 15, 2025

RESPONSIBLE OFFICIAL(S): Chief Procurement Officer

Glossary of Terms

Term	Definition
Business Unit	A title for major IRS organizations, such as the Independent Office of Appeals, the Taxpayer Services Division, and the Information Technology organization.
Competitively Awarded Contract	A contract acquisition strategy where more than one vendor is sought to bid on a service or function. The winning vendor is selected based on criteria established by the activity for which the work is to be performed. Federal Acquisition Regulation requires maximum competition, to the extent possible, throughout the acquisition life cycle.
Contract Line-Item	Provides a detailed description, <i>e.g.</i> , pricing, delivery, and funding information, of products or services purchased.
Contracting Officer	An agent of the federal government, empowered to execute contracts and obligate government funds.
Contracting Officer's Representative	Government representative who ensures that contractors meet the requirements of their contracts.
COR [Contracting Officer's Representative], End User, Technical Point of Contact Checklist	Checklist used to improve the timeliness and accuracy of the R&A and maintain documentation for services provided at the end of an identified period of performance.
Detailed Spend Plan	A plan developed from the general spend plan that contains additional details added by financial plan managers and the program management office. This plan is used to populate the financial planning system and is approved by the applicable Associate Chief Information Officer.
Development, Modernization, and Enhancement	A method for developing information technology investment requests that includes costs for projects and activities leading to new information technology assets, systems, projects, and activities that change or modify existing information technology assets to substantively improve capability or performance, implement legislative or regulatory requirements, or meet an agency leadership request. As part of the development, modernization, and enhancement method, capital costs can include hardware; software development and acquisition costs; commercial off-the-shelf acquisition costs; government labor costs; and contracted labor costs for planning, development, acquisition, system integration, and direct project management and overhead support.
Document Library	The location in the Acquisition Workflow Approval Routing Efficiency system where pre-award documents are uploaded.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The federal government's fiscal year begins on Oct. 1 and ends on Sept. 30.

Inflation Reduction Act: Contract Performance Oversight and Compliance With Expenditure Restrictions Need Improvement

Term	Definition
General Spend Plan	A plan which contains the scope, schedule, and funding of information technology programs and projects that is approved by the Chief Information Officer.
Information Technology Investment	A single line item of funding in the information technology portfolio. Frequently a related set of procurements, projects, programs, and operations organized around a mission, related business functionality, or an end-to-end process.
Invoice	A contractor's bill or written request for payment under the contract for supplies delivered or services performed.
Legacy System	An information system that may be based on outdated technologies but is critical to day-to-day operations. In the context of computing, it refers to outdated computer systems, programming languages, or application software that are used instead of more modern alternatives.
Operations and Maintenance	Operations costs include expenses associated with an information technology asset that is in the production environment; costs to sustain an information technology asset at the current capability and performance levels, including federal and contracted labor costs; and costs for the disposal of an asset. Maintenance costs refer to all costs (including all related personnel costs) needed to sustain an information technology asset at the current capability and performance levels.
Post-Award Documents	Documents produced after a contract is awarded. They include, but are not limited to R&A documents, supporting memoranda, price negotiation memoranda, option justifications, modifications, determination of responsibility, waivers, award documents, and terminations documents, as applicable.
Pre-award Documents	Documents required to support completed tasks during the group of phases in the acquisition life cycle that occur prior to a contract being awarded.
Procurement System	A system used by the IRS to track obligations, create solicitations and awards, maintain contractor files, and generate reports.
Receipt and Acceptance	Documentation for both receipt, <i>e.g.</i> , the TPOC Checklist, and acceptance, <i>e.g.</i> , quality assurance inspection reports, of products or services.
Subsystem	A component of an application or system.
System	A discrete set of information resources organized for the collection, processing, maintenance, use, sharing, dissemination, or disposition of information. A system normally includes hardware, software, information, data, applications, communications, and people.

Abbreviations

BSM	Business Systems Modernization
CO	Contracting Officer
FMS	Financial Management Services
IRA	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
O&M	Operations and Maintenance
OCPO	Office of the Chief Procurement Officer
R&A	Receipt and Acceptance
TIGTA	Treasury Inspector General for Tax Administration
TPOC	Technical Point of Contact



**To report fraud, waste, or abuse,
contact our hotline on the web
at <https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**

Information you provide is confidential, and you may remain anonymous.