



*Controls Over Information Technology  
Procurements Need Improvement*

**June 19, 2019**

**Reference Number: 2019-20-038**

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.

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## HIGHLIGHTS

### CONTROLS OVER INFORMATION TECHNOLOGY PROCUREMENTS NEED IMPROVEMENT

## Highlights

Final Report issued on June 19, 2019

Highlights of Reference Number: 2019-20-038 to the Commissioner of Internal Revenue.

### IMPACT ON TAXPAYERS

The Office of Information Technology Acquisitions is responsible for ensuring that the acquisition process is properly and efficiently managed and is conducted with integrity, fairness, and openness. Information technology products and services remain one of the largest costs for Federal agencies. Without proper controls, the IRS cannot assure that it secured the lowest cost, increasing the risk of overpayments for products and services and the potential waste of taxpayer dollars.

### WHY TIGTA DID THE AUDIT

This audit was initiated to assess the various procurement methods the IRS uses to obtain information technology hardware and software to determine whether it followed established policies and procedures and that the procurements were the most cost effective for the Federal Government.

### WHAT TIGTA FOUND

TIGTA selected and reviewed a stratified statistical sample of 43 awarded contracts and 22 executed delivery orders from a population of 106 awarded contracts and 77 executed delivery orders for information technology hardware and software. The 183 awarded contracts and executed delivery orders had combined obligations of approximately \$94.9 million, of which our stratified statistical sample comprised approximately \$26.2 million, or about 28 percent of the total population obligations.

For 56 of the awarded contracts and executed delivery orders in the stratified statistical sample, TIGTA was unable to find the same or similar product at a better price than what the IRS had

obtained. A number of these products required specific features or specifications, making them a unique product not largely available in the common marketplace and not identified in our search.

However, TIGTA found nine delivery orders associated with one indefinite-delivery, indefinite-quantity contract for which the IRS could have procured eight distinct types of commercial hardware at a lower cost. TIGTA estimates that the IRS could have saved \$122,803 had it used a General Services Administration Federal Supply Schedule to purchase the hardware.

In addition, TIGTA found that preaward and award procurement documentation was not readily available or was missing from contract files. TIGTA estimates that 91 preaward and award procurement documents were missing.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Procurement Officer and the organization requesting a product or service ensure that sufficient market research is completed to support the contract vehicle used. In addition, the Chief Procurement Officer should ensure that: 1) contract file content reviews are timely and regularly conducted to confirm that documentation is complete, organized, current, consistent, and stored electronically as required and 2) all missing preaward and award procurement documents subsequently found during TIGTA's review are saved in their respective electronic contract files.

The IRS agreed with all of our recommendations and responded that it now complies with the market research policy. The IRS plans to remind managers to verify compliance during contract file reviews and to ensure that all missing preaward and award procurement documents found during this review are saved in their respective electronic contract files.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 19, 2019

**MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE**

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Controls Over Information Technology  
Procurements Need Improvement (Audit # 201820011)

This report presents the results of our review to assess the various procurement methods the Internal Revenue Service (IRS) uses to obtain information technology hardware and software to determine whether it followed established policies and procedures and that the procurements were the most cost effective for the Federal Government. This audit is included in our Fiscal Year 2019 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

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. If you have any questions, please contact me or Danny R. Verneuille, Assistant Inspector General for Audit (Security and Information Technology Services).



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*Controls Over Information Technology  
Procurements Need Improvement*

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*Table of Contents*

Background.....Page 1

Results of Review .....Page 3

Sampled Information Technology Hardware Purchases  
    Were Not Always the Most Cost Effective for the Federal  
    Government.....Page 3

Recommendation 1:.....Page 6

Preaward and Award Procurement Documentation Was  
    Not Readily Available or Was Missing From Contract  
    Files.....Page 7

Recommendation 2:.....Page 10

Recommendation 3:.....Page 11

**Appendices**

Appendix I – Detailed Objective, Scope, and Methodology .....Page 12

Appendix II – Major Contributors to This Report.....Page 15

Appendix III – Report Distribution List.....Page 16

Appendix IV – Outcome Measures.....Page 17

Appendix V – Requirements of Preaward Activities and Documents.....Page 19

Appendix VI – Glossary of Terms.....Page 22

Appendix VII – Management’s Response to the Draft Report.....Page 25



*Controls Over Information Technology  
Procurements Need Improvement*

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*Abbreviations*

eCFM	electronic Contract File Management
FAR	Federal Acquisition Regulation
FSS	Federal Supply Schedule
GSA	General Services Administration
IRS	Internal Revenue Service
OCPO	Office of the Chief Procurement Officer
PPS	Procurement for Public Sector
TIGTA	Treasury Inspector General for Tax Administration



## *Controls Over Information Technology Procurements Need Improvement*

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### *Background*

The mission of the Office of the Chief Procurement Officer (OCPO) is to deliver top-quality acquisition services to ensure that the Internal Revenue Service (IRS) can meet its mission of effective tax administration. Within the OCPO, the Office of Information Technology Acquisitions is primarily responsible, along with the Office of Business Operations to a lesser extent,<sup>1</sup> for planning, negotiating, executing, and managing the procurement of information technology products and services.<sup>2</sup> In addition, the Office of Information Technology Acquisitions is responsible for ensuring that the acquisition process is properly and efficiently managed and is conducted with integrity, fairness, and openness. It is also responsible for overseeing source selections for complex or highly visible and sensitive contract actions, developing innovative strategies, implementing continuous process improvements to minimize operating costs by streamlining acquisition lead time, and managing efforts based on an informed analysis of relative risks and benefits.

The acquisition process begins when the IRS determines that there is a need for information technology products or services. The product or service requirements are defined by the requester and initiated by processing a requisition in the procurement system. In October 2017, the IRS started using the Procurement for Public Sector (PPS) application for its acquisition life cycle management. This application includes steps for requesting, funding, and awarding contracts; executing delivery orders; and verifying receipt and acceptance of products and services as well as accruing procurement-related liabilities and processing payments. The IRS also uses the Folders Management module of the PPS to electronically store information technology product and service acquisition contracts and other files and documents that support the IRS's acquisition decisions. Prior to October 2017, the IRS used the Integrated Procurement System as its acquisition life cycle management system and the electronic Contract File Management (eCFM) tool for storing contract documents.

The acquisition life cycle is a documented process of required activities that the IRS follows to acquire products, such as hardware, software, services, *etc.* The IRS's procurement process includes four phases: 1) acquisition planning, 2) preaward, 3) award, and 4) post-award. During the acquisition planning and preaward phases (hereafter collectively referred to as the preaward phase), planning and research of an organization's request for information technology products or services are conducted. This includes conducting market research by collecting and analyzing information about hardware, software, and service capabilities to determine whether the procurement satisfies the IRS's needs. In addition, specific preaward activities and documents

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<sup>1</sup> The Office of Business Operations is primarily responsible for planning, negotiating, executing, and managing the procurement of non-information technology products and services.

<sup>2</sup> See Appendix VI for a glossary of terms.



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## *Controls Over Information Technology Procurements Need Improvement*

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are required to be completed depending on various factors of the acquisition. These factors include the estimated acquisition cost (*e.g.*, whether the total value of the acquisition is greater than the simplified acquisition threshold amount of \$150,000),<sup>3</sup> the exercise of an option,<sup>4</sup> and the source of the requested item (such as the open market or a General Services Administration (GSA) Federal Supply Schedule (FSS)). For further information on the preaward activities and documents, see Appendix V.

The award phase of the IRS's acquisition life cycle includes evaluating proposals (*e.g.*, proposal technical acceptability) and vendor past performance, past experience, and tax compliance as well as awarding a contract. The post-award phase involves contract administration to ensure that the contract is performed, as written, by both the contractor and the Federal Government. Contract administration includes monitoring the contractor's technical progress; reviewing purchase, delivery, and task orders; and approving invoices for payment in accordance with contract terms. In addition, this phase involves contract closeout actions, such as certifying that all services were satisfactorily provided and all deliverables are complete and acceptable.

This review was performed with information obtained from the OCPO's Offices of Information Technology Acquisitions and Business Operations and the Information Technology organization's Strategy and Planning function located at the New Carrollton Federal Building in Lanham, Maryland, during the period March 2018 through April 2019. 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. 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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<sup>3</sup> The simplified acquisition threshold amount increased from \$150,000 to \$250,000, effective March 6, 2018.

<sup>4</sup> Exercising an option is a unilateral right of the Federal Government, for a specified period, to purchase additional products or services listed in the contract or to elect to extend the terms of the contract. An option may call for delivery of the option quantity within or subsequent to the initial contract period.





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## *Controls Over Information Technology Procurements Need Improvement*

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### *Results of Review*

To assess the various procurement methods the IRS uses to obtain information technology hardware and software, we selected and reviewed a stratified statistical sample of information technology purchases made between October 1, 2016, and March 31, 2018.<sup>5</sup> We selected 43 awarded contracts and 22 executed delivery orders from a population of 106 awarded contracts and 77 executed delivery orders for information technology hardware and software during that period. The 183 awarded contracts and executed delivery orders had combined obligations of approximately \$94.9 million, of which our stratified statistical sample comprised approximately \$26.2 million, or about 28 percent of the total population obligations.

We examined the documentation of hardware and software products purchased through all the awarded contracts and some of the executed delivery orders.<sup>6</sup> For 56 of the awarded contracts and executed delivery orders in our stratified statistical sample, we were unable to find the same or similar product at a better price than what the IRS had obtained. A number of those products required specific features or specifications, making them a unique product not largely available in the common marketplace and not identified in our search. However, we identified nine executed delivery orders for which the IRS could have procured its information technology hardware at a lower cost. Although we did not identify a large number of instances in which the IRS overpaid for a particular information technology hardware or software product, we believe that improvements can be made to the procurement process as well as to ensure that preaward and award documentation is made more readily available.

### ***Sampled Information Technology Hardware Purchases Were Not Always the Most Cost Effective for the Federal Government***

Specific guidance on the Federal acquisition of products and services is provided in two documents. The Federal Acquisition Regulation (FAR) requires agencies to fulfill product and service requirements from the excess inventory of the requiring agency and then the excess inventories of other Federal agencies.<sup>7</sup> If these sources do not satisfy the agency requirements, the Department of the Treasury (hereafter referred to as the Treasury) Acquisition Procedures

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<sup>5</sup> See Appendix I for details on our sampling methodology.

<sup>6</sup> Due to the large variety and volume of products purchased through the executed delivery orders, we examined all software purchases but limited our review to hardware purchases with a minimum cost of \$300 or more per unit. In addition, we were unable to review two awarded contracts with total obligations of approximately \$67,000 because the IRS could not provide any of the preaward documentation, and the contracting officers who worked on the contracts had left the IRS. As a result, we were able to review only 41 of the 43 awarded contracts selected as part of our stratified statistical sample.

<sup>7</sup> 48 C.F.R. Section (§) 8.002, *Priorities for Use of Mandatory Government Sources* (Nov. 2017).



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## *Controls Over Information Technology Procurements Need Improvement*

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Subpart 1008.002, *Use of Other Sources*, directs IRS acquisition personnel to use Treasury mandatory sources, such as a GSA FSS or a Treasury-wide contract, to fulfill purchase needs before considering other market research techniques. If the product or service is available for purchase using a Treasury mandatory source, but it does not meet the agency's needs (e.g., urgency or better pricing), then an exception must be requested and approved prior to the issuance of a solicitation.

To identify and gain an understanding of the types of hardware and software products purchased, we reviewed various preaward and award activities as well as required documents for each of the awarded contracts and the executed delivery orders that were associated with a base award. This included requirements documentation, market research summary reports, independent Government cost estimate reports, sole source/brand name justification forms, awards, and modifications, where applicable. We then searched for the hardware and software products identified from the preaward and award activities as well as the required documents using key words based upon the product description, model number, brand name, *etc.*, from a database of historic procurement information we obtained from the GSA's GSAXcess website. Our search determined that, during the same period, the hardware and software products the IRS needed to purchase were not available from any other Federal agency's excessed or surplus inventories.

In addition, we conducted a test to determine whether the IRS could have purchased information technology products at a lower cost for the Federal Government. We searched on the same key words for each product in our sample on the Prices Paid Portal and Advantage websites on the GSA's Acquisition Gateway. We searched for the hardware and software products to determine if other Federal agencies purchased the same or similar products during the period between when the IRS performed its market research to the date the contracts were awarded or the delivery orders were executed (and if so, at what price). The search results identified which hardware and software products were also available to the IRS during that period. If the same or similar product was identified, we then compared the price paid by the IRS to the prices found in our search of the GSA websites to determine if the IRS could have purchased the product at a lower cost.

The IRS did not always purchase information technology products at a lower cost to the Federal Government. We determined that the IRS could have procured eight distinct types of commercial hardware from executed delivery orders associated with one indefinite-delivery, indefinite-quantity contract at a lower cost, saving \$67,872. Projecting our stratified statistical sample results to the population, we estimate that the IRS could have saved \$122,803 had it used a GSA FSS to purchase the hardware at a lower cost.<sup>8</sup> Figure 1 provides a listing of the lowest price identified for each commercial hardware type and the potential cost savings.

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<sup>8</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between \$59,582 and \$186,024.



*Controls Over Information Technology  
Procurements Need Improvement*

**Figure 1: Commercial Information Technology Hardware the IRS Could Have Purchased at a Lower Cost and the Potential Savings<sup>9</sup>**

Product Description	IRS Delivery Order Document			GSA Prices Paid Portal (Available Governmentwide)		Potential Savings
	Quantity	Price	Total Cost	Price	Total Cost	
ASUS 24" Monitor	192	\$455	\$87,360	\$327	\$62,736	\$24,624
ASUS 27" Monitor (includes eye care technology)	5	\$563	\$2,815	\$374	\$1,868	\$947
ASUS 32" Monitor	2	\$697	\$1,394	\$595	\$1,189	\$205
Epson GT1500 Scanner	7	\$393	\$2,753	\$227	\$1,586	\$1,167
Epson GT1500 Scanner	4	\$393	\$1,573	\$206	\$823	\$750
Freedom Scientific Topaz CCTV XL	5	\$2,298	\$11,488	\$2,272	\$11,358	\$130
Freedom Scientific Topaz CCTV XL HD With 24" Monitor	48	\$3,575	\$171,600	\$2,841	\$136,356	\$35,244
GN Netcom Jabra 9350e Wireless Headset	1	\$342	\$342	\$197	\$197	\$145
Philips Digital Recorder Pocket Memo DPM 8000	13	\$597	\$7,762	\$239	\$3,101	\$4,661
<b>Total</b>			<b>\$287,087</b>		<b>\$219,214</b>	<b>\$67,872</b>

*Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of prices paid for information technology hardware by the IRS and other Federal agencies between October 1, 2016, and March 31, 2018.*

The IRS also did not always follow procedures. The FAR provides that a contracting officer may only use market research if it was conducted within 18 months before the award of any delivery order and if the information is still current, accurate, and relevant.<sup>10</sup> However, we did not find evidence that documented current market research or a price analysis was conducted before executing each of the delivery orders associated with the indefinite-delivery, indefinite-quantity contract. The market research for this awarded contract and associated executed delivery orders was last conducted in Calendar Year 2014.<sup>11</sup>

<sup>9</sup> Due to the rounding of the individual unit prices identified from the IRS delivery order documents and the GSA Prices Paid Portal, the total cost for each distinct type of hardware and the potential savings for all hardware may not calculate exactly.

<sup>10</sup> 48 C.F.R. § 10.002, *Procedures* (Nov. 2017).

<sup>11</sup> The market research document was not signed or dated. However, we assume that the market research was conducted prior to the signing of the acquisition plan on October 23, 2014.



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## *Controls Over Information Technology Procurements Need Improvement*

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An OCPO official stated that, at the time this contract was awarded, not all required products were available on a GSA FSS and the prices were determined to be fair and reasonable based on adequate competition. We found that all eight types of hardware were from nine executed delivery orders that were all part of a four-year indefinite-delivery, indefinite-quantity contract containing a base year and three one-year options that extended the contract term to May 2, 2019. The OCPO official also stated that because the executed delivery orders were against an indefinite-delivery, indefinite-quantity contract, price analysis did not need to be conducted at the time the delivery orders were executed. The OCPO official further stated that, if market research were performed, it would be performed at the option level and not at the delivery order level. In addition, the market research would be completed for only a few of the products listed on the awarded contract, and the work would not be documented.

We believe that it would have been prudent for the IRS to conduct current market research to identify the most suitable contract vehicle available prior to executing these delivery orders in order to meet the FAR requirements. We found that had the IRS completed market research using a GSA FSS, it would have identified a lower cost for these hardware items.

Information technology products and services remain one of the largest costs for Federal agencies. Governmentwide acquisition contracts or the GSA FSSs are offered to help reduce product and service costs by leveraging the collective buying power of the Federal Government. The IRS cannot assure that it secures the lowest cost when market research is not performed prior to executing a delivery order, when required, increasing the risk of overpayment for products and services and the potential waste of taxpayer dollars.

### ***Recommendation***

**Recommendation 1:** The Chief Procurement Officer and the organization requesting a product or service should ensure that sufficient market research is completed to support the contract vehicle used.

**Management's Response:** The IRS agreed with this recommendation and implemented the corrective action on October 1, 2018. The OCPO staff complies with the market research policy as described in the Department of the Treasury Acquisition Procedures Part 1010, *Market Research*. This includes consulting with the Bureau Small Business Specialist to identify possible small business sources and using the GSA's Acquisition Gateway as the primary technique for conducting market research. The GSA's Acquisition Gateway includes a list of Best in Class vehicles, which are Treasury mandatory sources as well as other tools that support market research.

The IRS disagreed with our measurable benefit of \$122,803 in savings had it procured some information technology hardware products using a GSA FSS for a lower cost. Award decisions are based on more than price, such as technical acceptability, past performance, experience, responsibility, and tax compliance. The administrative cost of



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## *Controls Over Information Technology Procurements Need Improvement*

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awarding multiple contracts, in this instance, would have outweighed the potential cost savings. Additionally, it is not reasonable that the IRS resolicit and award a new delivery order under a GSA FSS to get a lower price, especially on longer-term contracts.

**Office of Audit Comment:** Although the IRS agreed with this recommendation, we were unable to verify that the IRS implemented the corrective action because the review period for our stratified statistical sample, October 1, 2016, through March 31, 2018, was prior to the corrective action date of October 1, 2018. In addition, the IRS did not inform us that a corrective action was being implemented during our fieldwork for us to verify its implementation. As stated in the report, the FAR provides that a contracting officer may only use market research if it was conducted within 18 months before the award of any delivery order and if the information is still current, accurate, and relevant. We did not find evidence that documented current market research or a price analysis was conducted. Had the IRS conducted market research, it would have identified the commercial hardware items cited in this report on a GSA FSS. The IRS would not have had to award multiple contracts and would have benefited on administrative time and cost from using a GSA FSS because the GSA would be responsible for managing the master contract. The IRS may have also been able to negotiate for additional discounts on its purchases at the delivery or task order level.

### **Preaward and Award Procurement Documentation Was Not Readily Available or Was Missing From Contract Files**

Guidance on IRS acquisition documentation is provided in several documents. According to the Government Accountability Office's *Standards for Internal Control in the Federal Government*,<sup>12</sup> "Documentation is a necessary part of an effective internal control and is required for the effective design, implementation, and operating effectiveness of an entity's internal control system." In addition, the FAR requires contract files containing the records of all contractual actions to be established for each contract.<sup>13</sup> The FAR also requires that documentation in the contract files be sufficient to constitute a complete history of the contractual transactions as a basis for making informed decisions at each step in the acquisition process, supporting actions taken, and providing information for reviews and investigations.

In addition, IRS Acquisition Policy Memorandum 2014-04, *Office of Procurement Electronic Contract File Management (eCFM) Tool*, dated April 9, 2014, requires all acquisition documents for new awards to be stored and archived electronically to the eCFM, effective April 15, 2014. IRS Acquisition Policy, *Fiscal Year 2018 Edition*, version 1.0, dated May 18, 2018, provides that contracting officers shall use the PPS Folders Management module to store electronic contract

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<sup>12</sup> Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014).

<sup>13</sup> 48 C.F.R. § 4.8, *Government Contract Files* (Nov. 2017).



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## *Controls Over Information Technology Procurements Need Improvement*

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file documents. Further, IRS Policy and Procedures Memorandum Number 4.1, *File Content Checklists*, dated April 11, 2016, and Number 4.1(B), *Procurement Reviews*, dated May 3, 2016, establish a uniform structure for file content of contractual documents and provides a contract file content checklist. It also provides that the contracting officer and assigned OCPO management are required to conduct contract file content reviews to ensure that acquisition documents are complete, organized, current, consistent, and stored electronically as required.

We reviewed the contract files for our stratified statistical sample of 43 awarded contracts and 22 executed delivery orders for information technology hardware and software products purchased by the IRS to determine whether the preaward and award documents were stored as required. We reviewed the files for nine preaward and award documents that included the following.

- *Acquisition Plan.*
- *Award or Modification.*
- *Contract File Content Checklist.*
- *Determination to Exercise an Option.*
- *Independent Government Cost Estimate.*
- *Information Technology Acquisition Package Document Checklist.*
- *Market Research Summary Report.*
- *Requirements Document.*
- *Sole Source/Brand Name Justification.*

We reviewed each of the awarded contracts and executed delivery orders for the nine preaward and award documents, potentially totaling 585 documents.<sup>14</sup> Based on our review of the electronic contract files, we determined that 115 documents were not applicable or not required due to various factors of the acquisition, *e.g.*, the value of the acquisition or the exercise of an option, leaving 470 preaward and award documents required. Of the 470 documents, we did not initially find 329 (70 percent) of the documents that should have been transferred and stored in the Folders Management module as required. Through additional research, the IRS subsequently provided 291 of the missing documents, leaving 38 (8 percent) documents not found during our review. Projecting our stratified statistical sample results to the population, we estimate that

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<sup>14</sup> Nine preaward and award documents multiplied by 43 awarded contracts and 22 executed delivery orders equals 585 potential documents for review.



*Controls Over Information Technology  
Procurements Need Improvement*

91 preaward and award documents are missing.<sup>15</sup> Figure 2 provides the results for our analysis of missing preaward and award documentation by document type.

**Figure 2: Missing Preaward and Award Documentation by Document Type**

Preaward or Award Document	Documents Required	Missing Required Documents
<i>Acquisition Plan</i>	25	0 (0%)
<i>Award or Modification</i>	65	4 (6%)
<i>Contract File Content Checklist</i>	65	7 (11%)
<i>Determination to Exercise an Option</i>	8	0 (0%)
<i>Independent Government Cost Estimate</i>	62	3 (5%)
<i>Information Technology Acquisition Package Document Checklist</i>	65	8 (12%)
<i>Market Research Summary Report</i>	60	10 (17%)
<i>Requirements Document</i>	65	3 (5%)
<i>Sole Source/Brand Name Justification</i>	55	3 (5%)
<b>Total</b>	<b>470</b>	<b>38 (8%)</b>

*Source: TIGTA analysis of preaward and award contract file documentation provided by the IRS.*

Our finding is consistent with findings of reviews previously performed by TIGTA as well as the OCPO’s Quality Assurance Branch. In a prior TIGTA audit, we reported<sup>16</sup> that the IRS generally did not follow controls to ensure that the files for contracts initiated on the Integrated Procurement System included all post-award documentation as required by the FAR and IRS guidance. Specifically, we determined that 11 (79 percent) of 14 contract files selected for review were not complete.

In addition, the OCPO’s Quality Assurance Branch monitored the accountability, productivity, and timeliness of the acquisition process for contracts initiated on the Integrated Procurement System. The Quality Assurance Branch selected and reviewed 10 actions for contracts awarded from January 1 through March 31, 2017. The purpose of this review was to verify whether procurement personnel were properly following acquisition controls. The Quality Assurance Branch reported that 55 (56 percent) of 98 contract files selected for review were not found in the eCFM tool as required. Of the 43 awarded contracts with electronic contract files, the

<sup>15</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 46 and 135 preaward and award documents missing.

<sup>16</sup> TIGTA, Ref. No. 2016-20-035, *Improvements Are Needed for Information Technology Contract Administration Controls to Mitigate Risks* p. 13 (Aug. 2016).



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## *Controls Over Information Technology Procurements Need Improvement*

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Quality Assurance Branch reviewed for 10 contract actions, including approved acquisition plans, prepared justifications, and contract or delivery orders properly executed, and found that of 430 potential contract actions,<sup>17</sup> 131 (30 percent) were reported as noncompliant with internal controls, policies, or procedures.

We conclude that the preaward and award documents are missing because the contracting officer and assigned OCPO management do not always adequately conduct contract file content reviews. In addition, OCPO officials explained that they experienced issues when they migrated the procurement data from the eCFM tool to the PPS Folders Management module, causing some documents to not be converted or transferred. OCPO officials also explained that human error caused some of the documents to not be saved in the PPS contract files.

Because all required contract file documents were not readily available for review, there is no assurance that adequate management oversight is being provided; potential fraud is being detected; or information technology contracts, delivery orders, and procurement actions taken by IRS employees are in compliance with the FAR as well as Treasury and IRS acquisition policies and procedures. If the contracting officers and assigned OCPO management do not adequately review contract files to ensure that documents are complete, organized, current, and consistent, the IRS may not be able to support its procurement decisions and could potentially misuse taxpayer dollars.

### ***Recommendations***

**Recommendation 2:** The Chief Procurement Officer should ensure that contract file content reviews are timely and regularly conducted by contracting officers and assigned OCPO management to confirm that documentation is complete, organized, current, consistent, and stored electronically as required.

**Management's Response:** The IRS agreed with this recommendation. The OCPO staff must use the official system of record in the PPS Folders Management application to store contract file documents as required by IRS Acquisition Policy Subpart 1004.802-70, *Government Contract Files*. The OCPO managers will be reminded to verify compliance during contract file reviews.

**Office of Audit Comment:** Although the IRS agreed with this recommendation, its corrective action does not specifically address the recommendation and ensure that contracting officers and assigned OCPO managers conduct contract file content reviews timely and regularly.

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<sup>17</sup> Ten contract actions multiplied by 43 awarded contracts equals 430 total contract actions.





*Controls Over Information Technology  
Procurements Need Improvement*

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**Recommendation 3:** The Chief Procurement Officer should ensure that all missing preaward and award procurement documents subsequently found during our review are saved in their respective electronic contract files.

***Management's Response:*** The IRS agreed with this recommendation. The OCPO will require managers to ensure that all missing preaward and award procurement documents found during this review are saved in their respective electronic contract files.



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*Controls Over Information Technology  
Procurements Need Improvement*

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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to assess the various procurement methods the IRS uses to obtain information technology hardware and software to determine whether it followed established policies and procedures and that the procurements were the most cost effective for the Federal Government.<sup>1</sup> To accomplish our objective, we:

- I. Identified and reviewed Federal, Treasury, and IRS policies, procedures, and guidance on the acquisition of information technology hardware and software.
- II. Interviewed OCPO and Information Technology organization personnel to determine the procurement processes in place and the management systems used to capture and maintain the data related to information technology hardware and software contracts and delivery orders.
- III. Selected and reviewed a stratified statistical sample of 43 awarded contracts and 22 executed delivery orders for information technology hardware and software from a population of 106 awarded contracts and 77 executed delivery orders with an award amount greater than \$3,500 and initiated between October 1, 2016, and March 31, 2018.<sup>2</sup> The sample was selected using a 95 percent confidence level, a 10 percent expected error rate, and a  $\pm 6$  percent precision rate.
  - A. Consulted with TIGTA's contract statistician to ensure that the sampling methodology was sound and accurate.
  - B. Evaluated the reliability of the listing of information technology hardware and software awarded contracts and executed delivery orders in Step III and data extracts received from the GSA in Step IV.A.1 to help ensure that the data were reasonably complete and accurate. We verified the criteria used to create the reports, verified that all fields requested were received, and verified that the record counts equaled to what was expected.
- IV. Compared each of the procurement methods identified in Step I to the procurement method used in each of the awarded contracts and executed delivery orders selected for

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<sup>1</sup> See Appendix VI for a glossary of terms.

<sup>2</sup> We stratified the population into six strata of awarded contracts and executed delivery orders containing hardware only, software only, and a combination of two or more of the following: 1) hardware, 2) software, and 3) services, each with a contract or delivery order value equal to or less than \$150,000 or greater than \$150,000.



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## *Controls Over Information Technology Procurements Need Improvement*

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review in Step III to determine whether they were the most cost effective for the Federal Government.

- A. Identified the procurement methods that offered the same or similar information technology hardware and software and captured the cost.
  - 1. Contacted GSA personnel to obtain historical reports from the GSAXcess website on excessed and surplus information technology hardware and software that were available for sale from Federal agencies.
  - 2. Searched for information technology hardware and software that were offered for sale from mandatory sources such as the Prices Paid Portal and Advantage websites or through the GSA's Acquisition Gateway.
  - 3. Calculated the revised cost if the same or similar information technology hardware or software were available through other procurement methods.
- B. Compared the cost the IRS paid for each of the awarded contracts and executed delivery orders selected for review in Step III to the calculated cost for the same or similar information technology hardware and software identified from the various procurement methods in Step IV.A.3.
- C. If the purchase was not the most cost effective for the Federal Government, obtained and reviewed supporting documentation of the awarded contracts and executed delivery orders to determine whether all necessary forms and documents were complete and properly approved.
- D. Interviewed OCPO officials to determine the reason and rationale for selecting the contracted vendor rather than selecting the most cost-effective source.
- E. For those awarded contracts and executed delivery orders that we determined were not the most cost effective for the Federal Government, we calculated the difference, *e.g.*, cost savings, if the IRS had used a different procurement method.

### **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 FAR and Department of the Treasury Acquisition Procedures as well as various IRS policies and procedures related to the procurement of information technology hardware and software. We evaluated these controls by interviewing OCPO and Information Technology organization personnel concerning the scope and purpose of the information technology procurement program, reviewing a stratified



*Controls Over Information Technology  
Procurements Need Improvement*

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statistical sample of awarded contracts and executed delivery orders of purchased information technology hardware and software products, and reviewing supporting documentation.



*Controls Over Information Technology  
Procurements Need Improvement*

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**Appendix II**

*Major Contributors to This Report*

Danny R. Verneuille, Assistant Inspector General for Audit (Security and Information  
Technology Services)  
Bryce Kisler, Director  
Louis Lee, Audit Manager  
Kamelia Phillips, Lead Auditor  
David Allen, Senior Audit Evaluator



*Controls Over Information Technology  
Procurements Need Improvement*

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**Appendix III**

*Report Distribution List*

Deputy Commissioner for Operations Support  
Acting Chief Information Officer  
Chief Procurement Officer  
Deputy Chief Information Officer for Operations  
Associate Chief Information Officer, Strategy and Planning  
Director, Office of Information Technology Acquisitions  
Director, Office of Business Operations  
Director, Office of Audit Coordination



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*Controls Over Information Technology  
Procurements Need Improvement*

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## **Appendix IV**

### *Outcome Measures*

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

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

- Inefficient Use of Resources – Potential; \$122,803 in savings had the IRS procured some information technology hardware products using a GSA FSS for a lower cost (see page 3).<sup>1</sup>

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

We selected and reviewed a stratified statistical sample of 43 awarded contracts and 22 executed delivery orders from a population of 106 awarded contracts and 77 executed delivery orders for information technology hardware and software purchases initiated between October 1, 2016, and March 31, 2018. The 183 awarded contracts and executed delivery orders had combined obligations of approximately \$94.9 million, of which our stratified statistical sample comprised approximately \$26.2 million.

We examined the documentation of hardware and software products purchased through all the awarded contracts and some of the executed delivery orders.<sup>2</sup> We then compared the prices paid by the IRS to the prices found in our search of the Prices Paid Portal and Advantage websites on the GSA's Acquisition Gateway during the period between when the IRS performed its market research to the date the contract was awarded or the delivery order was executed. We determined that the IRS could have procured eight distinct types of commercial hardware at a lower cost, saving \$67,872. Projecting our stratified statistical sample results to the population, we estimate that the IRS could have saved \$122,803 had it used a GSA FSS to purchase the hardware.<sup>3</sup>

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<sup>1</sup> See Appendix VI for a glossary of terms.

<sup>2</sup> Due to the large variety and volume of products purchased through the executed delivery orders, we examined all software purchases but limited our review to hardware purchases with a minimum cost of \$300 or more per unit. In addition, we were unable to review two awarded contracts with total obligations of approximately \$67,000 because the IRS could not provide any of the preaward documentation, and the contracting officers who worked on the contracts had left the IRS. As a result, we were able to review only 41 of the 43 awarded contracts selected as part of our stratified statistical sample.

<sup>3</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between \$59,582 and \$186,024.



## *Controls Over Information Technology Procurements Need Improvement*

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

- Reliability of Information – Potential; 91 missing preaward and award procurement documents (see page 7).

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

We selected and reviewed a stratified statistical sample of 43 awarded contracts and 22 executed delivery orders from a population of 106 awarded contracts and 77 executed delivery orders for information technology hardware and software purchases initiated between October 1, 2016, and March 31, 2018. We reviewed procurement files for nine preaward and award documents for each of the awarded contracts and executed delivery orders, potentially totaling 585 documents.<sup>4</sup> Based on our review of the electronic contract files, we determined that 115 documents were not applicable or not required due to various factors of the acquisition, *e.g.*, the value of the acquisition or the exercise of an option, leaving 470 preaward and award documents required. Of the 470 documents, we did not initially find 329 documents that should have been transferred and stored in the Folders Management module as required. Through additional research, the IRS subsequently provided 291 of the missing documents, leaving 38 documents not found. Projecting our stratified statistical sample results to the population, we estimate that 91 preaward and award documents are missing.<sup>5</sup>

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<sup>4</sup> Nine preaward documents multiplied by 43 awarded contracts and 22 executed delivery orders equals 585 potential documents for review.

<sup>5</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 46 and 135 preaward and award documents missing.





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*Controls Over Information Technology  
Procurements Need Improvement*

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## Appendix V

### *Requirements of Preaward Activities and Documents*

This appendix provides a description as well as the conditions and context of when preaward activities and documents are required.

#### **Preaward activities and documents required for all information technology acquisitions**

- ***Information Technology Acquisition Package Document Checklist***, a listing of all forms and documents, *e.g.*, *Contracting Officer Representative Nomination Form*, *Quality Assurance Surveillance Plan*, *Security Compliance Review Checklist*, *Technical Evaluation Plan*, *etc.*, that may be required to be completed, depending on the acquisition vehicle, to document the acquisition process.
- ***Contract File Content Checklist***, a listing of all forms and documents, *e.g.*, *Determination and Findings*, *Source Selection Plan*, and Treasury Standard Form 1015, *Strategic Sourcing Initiative Business Case*, *etc.*, that may be required to be stored in the electronic contract file depending on the acquisition vehicle.

#### **Additional preaward activities and documents required dependent upon various factors of the acquisition**

- **Treasury Standard Form 1011, *Acquisition Plan***, a documented plan that addresses all technical, business, management, and other significant considerations that will control the acquisition. It summarizes the acquisition planning deliverables and identifies milestones in the acquisition process. It is required for any acquisition, including interagency agreements, expected to exceed the simplified acquisition threshold amount, inclusive of all options or award terms offered as incentives.
- **Treasury Standard Form 1010, *Market Research Summary Report***, a report used to document the results of the market research. The extent of market research may vary depending on such factors as urgency, estimated dollar value, and complexity. It is not required when exercising an option but is required for 1) all acquisitions greater than the simplified acquisition threshold amount for the entire period of performance, including option years except under a Treasury-wide or bureau single award indefinite-delivery vehicle or agreement for which market research has already been conducted or 2) certain actions not unilaterally set aside for small businesses when the applicable conditions found in the Department of the Treasury Acquisition Procedures, Subpart 1004.7004, *Small Business Review Requirements*, effective October 1, 2017, are met.



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## *Controls Over Information Technology Procurements Need Improvement*

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- **Requirements document**, a formal document that captures and defines the work activities, deliverables, and timelines a vendor will execute in performance of the specified work. It is a stand-alone document that must be explicit to the requirements of the Federal Government and the responsibilities of the contractor so that questions of interpretation can be avoided. This is not required when exercising an option but is required for all new acquisitions except orders for most commercial products or services, such as laptops, desktops, keyboards, and commercial off-the-shelf software training.
- **Independent Government Cost Estimate**, serves as the basis for acquisition planning through setting budgets or reserving funds for current and future requirements, provides the basis for comparing costs or prices proposed by vendors, and serves as an objective basis for determining price reasonableness in cases in which only one vendor responds to a solicitation. The estimate should be developed well in advance and prior to the issuance of a solicitation and is an important tool in demonstrating the Federal Government's due diligence in reasonably estimating the cost. This is not required when exercising an option but is required for all other new acquisitions and must include the base year and all option years. It is also required for major modifications in which technical or financial aspects of the contract will change.
- **Treasury Standard Form 1026, *Determination to Exercise an Option***, is required when exercising an option to purchase additional products or services listed in the contract or to elect to extend the terms of the contract.
- **A sole source/brand name justification form** is required to be completed for all requirements in which only one responsible source, *e.g.*, contractor or brand name, has been identified and no other product or service will satisfy the agency's requirement (thus competition will be limited).<sup>1</sup> There are five sole source/brand name justification forms, which include:
  - ***Justification for Other Than Full and Open Competition***, is required when buying products or services from the open market for which the total value exceeds the simplified acquisition threshold amount and meets one of the justifications listed in the FAR. For example, only one responsible source and no other products or services will satisfy the agency's requirements.<sup>2</sup>
  - ***Treasury Standard Form 1009, Sole Source Justification for Acquisitions at or Below the Simplified Acquisition Threshold***, is required when buying products or services for which the total value is equal to or less than the simplified acquisition threshold amount, and meets one of the justifications in the FAR. For example, the contracting officer determines that the circumstances of the contract action deemed

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<sup>1</sup> A justification form is not required when exercising an option.

<sup>2</sup> 48 C.F.R. § 6.302, *Circumstances Permitting Other Than Full and Open Competition* (Nov. 2017).



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## *Controls Over Information Technology Procurements Need Improvement*

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only one source was reasonably available, such as urgency or exclusive licensing agreements.<sup>3</sup>

- **Treasury Standard Form 1012, *Limited-Sources Justification***, is required when buying products or services from a GSA FSS and meets one of the justifications in the FAR. For example, an item that is unique to one manufacturer, such as brand name or feature of the product.<sup>4</sup>
- **Treasury Standard Form 1013, *Justification & Approval for FAR Subpart 13.5 Sole Source (including brand name) Acquisitions***, is required when buying certain commercial products or services greater than the simplified acquisition threshold amount but not exceeding \$7 million from the open market using simplified procedures.<sup>5</sup>
- **Treasury Standard Form 1014, *Justification for An Exception to Fair Opportunity***, is required when buying products or services from an existing agency indefinite-delivery, indefinite-quantity contract, such as Treasury Information Processing Support Services or National Aeronautics and Space Administration Solutions for Enterprise-Wide Procurement, and meets one of the justifications in the FAR. For example, the need for the products or services is so urgent that providing a fair opportunity would result in unacceptable delays.<sup>6</sup>

### **Remaining preaward activities and documents required to complete the preaward phase**

- **Submit a *Purchase Request***, the official document submitted by a contracting officer's representative or another individual from the program office requesting the acquisition of products or services.
- **Prepare an *Acquisition Package***, all forms and documents required to be completed for the acquisition of products or services.
- **Prepare a *Solicitation***, a request asking vendors to submit contract proposals and quotes.

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<sup>3</sup> 48 C.F.R. § 13.106-1(b)(1), *For Purchases Not Exceeding the Simplified Acquisition Threshold* (Nov. 2017).

<sup>4</sup> 48 C.F.R. § 8.405-6, *Limiting Sources* (Nov. 2017).

<sup>5</sup> The limit is increased to \$13 million for acquisitions of commercial items that are to be used in support of a contingency operation, as described in 48 C.F.R. § 13.5, *Simplified Procedures for Certain Commercial Items* (Nov. 2017).

<sup>6</sup> 48 C.F.R. § 16.505(b)(2), *Exceptions to the Fair Opportunity Process* (Nov. 2017).



*Controls Over Information Technology  
Procurements Need Improvement*

**Appendix VI**

*Glossary of Terms*

<b>Term</b>	<b>Definition</b>
<b>Advantage Website</b>	An online shopping and ordering service for use by Government agencies to buy commercial products and services. Allows users to: 1) search for items using keywords, part numbers, manufacturer names, contractor names, or contract numbers; 2) browse by category of products and services; and 3) compare features, prices, and delivery options.
<b>Contracting Officer</b>	An agent of the Federal Government, empowered to execute contracts and obligate Government funds.
<b>Contracting Officer's Representative</b>	The principal program representative assigned to Federal Government procurements. His or her primary role is to provide technical direction, monitor contract performance, and maintain an arm's length relationship with the contractor, ensuring that the Federal Government pays only for the services, materials, and travel authorized and delivered under the contract.
<b>Delivery Order</b>	An order for supplies placed against an established contract or with Government sources.
<b>Federal Acquisition Regulation</b>	The primary acquisition regulations for use by all Federal executive agencies in their acquisition of supplies and services with appropriated funds.
<b>Federal Supply Schedule</b>	Long-term governmentwide contracts with commercial firms providing Federal, State, and local government buyers access to approximately 11 million commercial products and services at volume discount pricing.
<b>GSAXcess Website</b>	A website that Federal agencies use to report their personal property and to search and acquire excess personal property that is available from other Federal agencies for little or no cost.
<b>Hardware</b>	The physical parts of a computer and related devices; it includes motherboards, hard drives, monitors, keyboards, mice, printers, and scanners.



*Controls Over Information Technology  
Procurements Need Improvement*

<b>Term</b>	<b>Definition</b>
<b>Indefinite-Delivery, Indefinite-Quantity Contract</b>	Used to acquire supplies and services when the exact times or exact quantities of future deliveries are unknown at the time the contract is awarded.
<b>Information Technology</b>	Any equipment or interconnected system or subsystem of equipment that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information by an agency. The term information technology includes computers, ancillary equipment, software, firmware and similar procedures, services (including support services), and related resources.
<b>Integrated Procurement System</b>	Prior to October 2017, the IRS used this system to track and capture the information necessary to process acquisition actions, including purchase orders, delivery orders, task orders, contract awards, interagency agreements, and associated modifications.
<b>Interagency Agreement</b>	A document generally between Government agencies and departments that defines cooperative work between them. The agreement defines the parties involved, the work performed, and the transfer of technologies and funds.
<b>National Aeronautics and Space Administration Solutions for Enterprise-Wide Procurement</b>	A multiaward, Federal Governmentwide acquisition contract vehicle focused on commercial information technology products and product-based services.
<b>Prices Paid Portal Website</b>	A website that shows the prices that agencies paid for goods and services, including total price, unit price, purchase quantity, award date, contract number, and award vehicle, <i>e.g.</i> , a GSA FSS.
<b>Requirement</b>	A formalization of a need and the statement of a capability or condition that a system, subsystem, or system component must have or meet to satisfy a contract, standard, or specification.
<b>Simplified Acquisition Threshold Amount</b>	The dollar amount below which an entity may purchase property or services using small purchase methods in accordance with the FAR.



*Controls Over Information Technology  
Procurements Need Improvement*

<b>Term</b>	<b>Definition</b>
<b>Software</b>	A general term that describes computer programs and consists of lines of code written by computer programmers that have been compiled into a computer program.
<b>Treasury Information Processing Support Services</b>	An indefinite-delivery, indefinite-quantity contract to provide a wide spectrum of information technology services.
<b>Treasury Mandatory Sources</b>	Consists of GSA FSSs, Governmentwide acquisition contracts, multiagency contracts, and any other procurement instruments intended for use by multiple Federal agencies.



*Controls Over Information Technology  
Procurements Need Improvement*

**Appendix VII**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

May 23, 2019

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Shanna R. Webbers *Shanna R. Webbers*  
Chief Procurement Officer

SUBJECT: Draft Audit Report – Controls Over Information Technology  
Procurements Need Improvement (#201820011)

Thank you for the opportunity to review and comment on the subject draft report. The IRS is committed to acquiring information technology at a fair and reasonable price, conducting sufficient market research to support the contract vehicle used, and having the proper contract file reviews to ensure documentation is complete, organized, current, consistent, and stored electronically.

The IRS agrees with TIGTA's recommendations. We have already implemented a corrective action for one of the three recommendations and have developed corrective actions for the remaining recommendations, with the intent of implementing this Fiscal Year, as documented in attachment 1.

We do not agree with TIGTA's measurable benefit of \$122,803 in savings had the IRS procured some information technology hardware products using a General Services Administration (GSA) Federal Supply Schedule (FSS) for a lower cost. The draft report cited this benefit as being derived by comparing orders awarded under an IRS specific Indefinite Delivery Vehicle to market research using a GSA FSS. Award decisions are based on more than price, such as technical acceptability, past performance, experience, responsibility, and tax compliance. The administrative cost of awarding multiple contracts, in this instance, would have outweighed the potential cost savings. Additionally, it is not reasonable that IRS re-solicit and award a new delivery order under GSA FSS to get a lower price, especially on longer term contracts.

We appreciate the continued support and assistance provided by your office. If you have any questions, please contact me at (202) 317-3473. For matters concerning audit procedural follow-up, you may contact Pamela Cobbs, Office of Procurement Policy, at (240) 613-7357.



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*Controls Over Information Technology  
Procurements Need Improvement*

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Attachment 1

**RECOMMENDATION 1:**

The Chief Procurement Officer and the organization requesting a product or service should ensure that sufficient market research is completed, as required, to support the contract vehicle used.

**CORRECTIVE ACTION:**

The IRS agrees with this recommendation. The Office of Chief Procurement Officer (OCPO) staff complies with the Market Research policy as described in the Department of the Treasury Acquisition Procedures Part 1010. This includes consulting with the Bureau Small Business Specialist to identify possible small business sources and using the Acquisition Gateway as the primary technique for conducting market research. The Acquisition Gateway includes a list of Best in Class vehicles, which are Treasury Mandatory Sources as well as other tools that support market research.

**IMPLEMENTATION DATE:** Implemented October 1, 2018

**RESPONSIBLE OFFICIAL:** Office of Chief Procurement Officer

**CORRECTIVE ACTION MONITORING PLAN:**

The IRS OCPO staff currently follows established procedures and will update the Joint Audit Management Enterprise System to indicate this action is complete.

**RECOMMENDATION 2:**

The Chief Procurement Officer should ensure that contract file content reviews are timely and regularly conducted by contracting officers and assigned OCPO management to ensure that documentation is complete, organized, current, consistent, and stored electronically as required.

**CORRECTIVE ACTION:**

The OCPO agrees with this recommendation. The OCPO staff must use the official system of record in the Procurement for Public Sector (PPS), Folders Management application to store contract file documents as required by the Internal Revenue Service Acquisition Policy (IRSAP), Subpart 1004.802-70 – Government Contract Files. The OCPO managers will be reminded to verify compliance during contract file reviews.

**IMPLEMENTATION DATE:** July 15, 2019

**RESPONSIBLE OFFICIAL:**

Office of Chief Procurement Officer





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*Controls Over Information Technology  
Procurements Need Improvement*

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**CORRECTIVE ACTION MONITORING PLAN:**

The IRS OCPO staff will enter the corrective action into the Joint Audit Management Enterprise System and provide an update when complete.

**RECOMMENDATION 3:**

The Chief Procurement Officer should ensure that all missing pre-award and award procurement documents subsequently found during our review are saved in their respective electronic contract files.

**CORRECTIVE ACTION:**

The OCPO agrees with this recommendation and will require managers to ensure all missing pre-award and award procurement documents found during this review are saved in their respective electronic contract files.

**IMPLEMENTATION DATE:** July 15, 2019

**RESPONSIBLE OFFICIAL:** Office of Chief Procurement Officer

**CORRECTIVE ACTION MONITORING PLAN:**

The IRS OCPO staff will enter the corrective action into the Joint Audit Management Enterprise System and provide an update when complete.