

GAO

Report to the Chairman and Ranking  
Minority Member, Committee on  
Finance, U.S. Senate

December 2002

# IRS CONTRACTING

## New Procedure Adds Price or Cost as a Selection Factor for Task Order Awards



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Highlights of GAO-03-218, a report to the Senate Committee on Finance

## Why GAO Did This Study

The Internal Revenue Service (IRS) is in the midst of a massive effort to reorganize its structure and modernize its technology. To help with this effort, IRS obtains services through task orders under its Treasury Information Processing Support Services (TIPSS-2) contracting program. In this study, GAO reviewed the 6 largest competitive task orders that IRS awarded between July 1, 2001 and December 31, 2001 to determine if IRS used price or cost as a selection factor in the award of these task orders.

## IRS CONTRACTING

# New Procedure Adds Price Or Cost as a Selection Factor for Task Order Awards

## What GAO Found

TIPSS-2 is IRS's largest service contracting program, obligating \$543 million to 18 contracts from its beginning in June 2000 to June 20, 2002. Through the award of TIPSS-2 task orders, IRS obtains needed services in the areas of information systems, telecommunications, organizational/management, and operational support. IRS can continue ordering services under TIPSS-2 contracts into 2005.

GAO found that IRS's procedures used in the award of competitive task orders under the TIPSS-2 program did not require contracting officers to consider price or cost as a selection factor in the award of task orders. Although contracting officers could have considered price or cost at their discretion, they did not for 5 of 6 competitive task orders GAO reviewed.

IRS's procedures conformed to the version of the Federal Acquisition Regulation (FAR) that was in effect at the time the TIPSS-2 solicitation was issued. However, since then the FAR was changed. As the timeline below explains, TIPSS-2 procedures conformed to the regulation in effect in 1999, but were not required to conform to the revised regulation.

During our review, IRS developed and implemented a new procedure that provides for the consideration of price or cost as a selection factor for competitive task order awards. Additionally, the TIPSS-2 contract was changed to state that price or cost is a selection factor in the award of competitive task orders.

### Timeline of TIPSS-2 program and policy events

Date	Item	Significance
August 1999	Federal Acquisition Regulation (FAR)	Contracting officers <b>should</b> consider price or cost as a selection factor, but are <b>not required</b> to.
September 1999	TIPSS-2 program solicitation	Timing of solicitation issuance places TIPSS-2 under August 1999 regulation.
April 2000	Revised FAR	Contracting officers <b>must</b> consider price or cost as a selection factor.

Source: GAO's analysis.

[www.gao.gov/cgi-bin/getrpt?GAO-03-218](http://www.gao.gov/cgi-bin/getrpt?GAO-03-218).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Michael Brostek, Director, Tax Issues, at (202) 512-9039 or brostekm@gao.gov .

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## **Abbreviations**

FAR Federal Acquisition Regulation  
FASA Federal Acquisition Streamlining Act of 1994  
FPDS Federal Procurement Data System  
IRS Internal Revenue Service  
RFI request for information  
TIPSS Treasury Information Processing Support Services



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United States General Accounting Office  
Washington, DC 20548

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December 10, 2002

The Honorable Max Baucus  
Chairman  
The Honorable Charles E. Grassley  
Ranking Minority Member  
Committee on Finance  
United States Senate

The Internal Revenue Service (IRS) is in the midst of a massive and multifaceted effort to reorganize its structure and modernize its technology. Reorganization and modernization is intended to lay the foundation for IRS to respond to taxpayers faster and more accurately. To help with this effort, IRS obtains needed services through contracts that were awarded under its Treasury Information Processing Support Services (TIPSS-2) program. TIPSS-2 is a multiple award, task order contracting program through which 18 contractors provide IRS with information systems, telecommunications, organizational/management, and operational support services under 18 contracts. Successor to a similar program called TIPSS, TIPSS-2 covers contracts awarded in 2000 under which task orders can be issued until 2005. Once IRS identifies a need for services, it can ask the contractors to compete for the specific task or, if a statutory exception applies,<sup>1</sup> it can award the task on a sole-source basis. From the beginning of the program in June 2000 through June 20, 2002, IRS obligated \$543 million to TIPSS-2 contracts.

Given the importance of these services to the management and administration of the tax system and a change in the Federal Acquisition Regulation (FAR) regarding the consideration of price or cost that occurred after the TIPSS-2 solicitation was issued, you asked us to provide information on whether IRS used price or cost as a selection factor in TIPSS-2 task order awards and how its use of these factors compares to federal contracting regulation. You also asked us to provide information on IRS's overall contracting and how IRS's data compare with governmentwide contracting. These data appear in appendix I. To report

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<sup>1</sup>Exceptions for sole-source awards involve unusually urgent needs; unique or highly specialized requirements; the promotion of economy and efficiency because the order is a logical follow-on to a previous order; and satisfaction of a required minimum guarantee amount. 41 U.S.C. 253j(b).

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on IRS's use of price or cost as a selection factor, we reviewed IRS's procedures for issuing task orders under TIPSS-2 and federal policy on task order competitions and interviewed IRS officials. To provide data on contracting trends, we obtained data from the Federal Procurement Data System (FPDS) and from IRS's TIPSS-2 program office.

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## Results in Brief

At the time of our review, IRS's procedures for issuing competitive task orders under the TIPSS-2 contracts did not require contracting officers to consider price or cost in selecting a contractor. Under these procedures, contracting officers could have considered cost or price if they chose to do so. We reviewed the six largest competitive task orders awarded in the final 6 months of calendar year 2001 and found that contracting officers did not consider price or cost as a selection factor for five of the six task orders.

IRS's procedures and the task orders we reviewed conformed with the FAR that was applicable at the time the TIPSS-2 solicitation was issued. That version of the FAR stated that price or cost should be considered as a selection factor but did not specifically require consideration of price or cost. After the solicitation was issued, the FAR was revised to state that price or cost must be considered as a selection factor for awarding task orders under contracts awarded through solicitations issued on or after April 25, 2000. Therefore, TIPSS-2 is covered by the earlier version of the FAR which states that contracting officers should consider rather than must consider price or cost as a selection factor.

During our review, IRS developed and implemented a new TIPSS-2 competitive procedure that provides for the consideration of price or cost as a selection factor. Additionally, IRS modified the TIPSS-2 contract so that cost will be a selection factor in the award of competitive task orders. In a November 27, 2002, letter, the Acting Commissioner of Internal Revenue generally agreed with the observations in our draft report but said that our recommendation to make IRS's procedure final was unnecessary because new procedures have been adopted. Since IRS finalized its procedure for including price or cost as a selection while developing its comments on our draft report, we agree the recommendation is no longer necessary and have revised the report accordingly.

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## Background

TIPSS-2 is IRS's largest service contracting program. Through 18 task order contracts, IRS obtains needed services in four broad areas: (1) information systems, (2) telecommunications, (3) organizational/management, and (4) operational support. Information systems covers software, security, training, and quality assurance. Telecommunications includes network traffic and trend analysis, systems design, and related disciplines. Organizational/management involves business process reengineering, process analysis, and project management support. Last, operational support relates to main frames, personal computers, local area networks, file servers, installation, and training and help desk support.

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## Scope and Methodology

To determine whether IRS used price or cost as a selection factor in the issuance of TIPSS-2 task orders, we first obtained and reviewed IRS's TIPSS-2 contract and award procedures. For each of the three procedures for competitive task orders under TIPSS-2, we also obtained data on the frequency with which each procedure was used in issuing TIPSS-2 task orders from the beginning of TIPSS-2 in June 2000 through June 20, 2002.

Second, from the 51 task orders that IRS issued between July 1 and December 31, 2001, we selected the six competitive task orders that had the largest dollar value obligations. These six task orders had \$21.4 million obligated and represented 29 percent of dollar obligations for the period.<sup>2</sup> We selected the last 6 months of calendar year 2001 as our universe because that was the most recent data available at the time of our work. We reviewed documentation for these six awards to determine the extent that IRS considered price or cost as a selection factor.

Third, we discussed the task order award process with TIPSS-2 program office staff and IRS contracting officials responsible for the TIPSS-2 program. We did not assess whether there would be an impact resulting from contracting officers considering price or cost as a selection factor for awarding task orders.

To compare IRS's procedures for awarding task orders under TIPSS-2 with federal contracting policy, we reviewed applicable laws and regulations

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<sup>2</sup>Although these task orders account for a large value, we cannot project our findings to the overall TIPSS-2 contracts because it is a judgmental sample.

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and analyzed how IRS's procedures compared to the requirements in them.

At your request, we limited our work to the price or cost issue because of its importance to the task order selection process and because of a change in the FAR since the issuance of the TIPSS-2 solicitation that now requires consideration of price or cost as a selection factor.

To compile the contracting information found in appendix I, we obtained data from FPDS and from IRS's TIPSS-2 program office. We discussed these data with officials in IRS's TIPSS-2 program office. Our analysis uses current dollar obligations for the year in which funds were obligated. We did not apply any index to normalize the obligated amounts.

Our work was performed between May and November 2002 in accordance with generally accepted government auditing standards.

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## TIPSS-2 Task Orders Were Awarded Using Procedures That Did Not Require Considering Price or Cost as a Selection Factor

At the time of our review, IRS's competitive procedures for awarding task orders under the TIPSS-2 contracts did not require contracting officers to consider price or cost in selecting a contractor. Contracting officers could have considered price or cost at their discretion but did not for five of six large task orders that we reviewed. IRS's TIPSS-2 procedures conformed with the applicable federal regulation at the time the TIPSS-2 solicitation was issued. However, that regulation was revised after the issuance of the TIPSS-2 solicitation to state that price or cost must be considered for the award of task orders issued under contracts that were awarded through solicitations issued on or after April 25, 2000.

For the competitive task order awards we reviewed, the TIPSS-2 contract stated that selection factors may include, but are not limited to, such factors as past performance, quality of deliverables, cost control, price, cost, or other factors that the contracting officer believes are relevant to the task order. In addition, the contract stated that the contracting officer shall select one of the following three procedures, or any combination of these procedures, for any requirement under the contract. As described in the contract and program documents, the three procedures are:

- Standard: generally used for relatively simple, low dollar value items. Contracting officers make a selection from an assessment of some or all of the selection factors listed above.

- Request for information (RFI): generally used for items of moderate complexity and estimated dollar value. The RFI is sent to all contractors qualified to provide services under a task area, and the selection is based on go/no-go or pass/fail factors stated in the RFI. If more than one competitor meets all factors, the contracting officer makes the selection using the Standard procedure mentioned previously.
- Best value: generally used for complex items with higher dollar estimates. Formal proposals will usually be requested and more formal source selection factors may be used. The TIPSS-2 contract states that price competition might be warranted for best value acquisitions and that this methodology may be used in conjunction with an RFI.

TIPSS-2 competitive procedures did not require that the contracting officer consider price or cost in selecting a contractor for a task order. The procedures left the use of price or cost to the discretion of the contracting officer. Table 1 shows that most competitive task orders from the beginning of TIPSS-2 in June 2000 to June 20, 2002, were issued under the RFI procedure.

**Table 1: Competitive Selection Process Used, June 2000 through June 20, 2002**

Procedure <sup>a</sup>	Competitive awards		Obligations
	Tasks	Percent <sup>b</sup>	
Standard	6	6	\$4,351,544
RFI	86	86	\$207,893,874
Best value	9	8	\$15,039,417

<sup>a</sup>One task order with obligations of \$29,990 was classified as unknown.

<sup>b</sup>The calculation of the percentages included the one task order that was classified as unknown and the percentages do not equal 100 because of rounding.

Source: GAO's analysis of data from IRS.

IRS had developed internal standard selection factors for the RFI procedure, including: (1) demonstrating work similar in type and scope as the task order, (2) demonstrating successful management of similar tasks, and (3) ability to obtain employees or subcontractors with the special skills and experience to perform the work.

All six of the competitive task orders we reviewed used the RFI procedure. On the basis of our review of the task order files, the contracting officer did not choose to use price or cost as a selection factor in five of the six task orders. The contracting officer considered price and cost as a selection factor for the task order in which IRS acquired services and

equipment for its website—The Digital Daily. This task order appears in the first row of table 2. Table 2 shows the selection factors and the dollar obligations for the task orders.

**Table 2: Selection Factors and Obligations for Competitive Task Orders**

Obligations on each task order <sup>a</sup>	Selection Factors
\$8,500,000	<ul style="list-style-type: none"> <li>• Completeness in answering all statement of work (SOW) tasks.</li> <li>• Thoroughness in addressing requirements analysis task in SOW.</li> <li>• Thoroughness of implementation plan and correlation between plan and requirements analysis.</li> <li>• Design and documentation of architecture, operating system, scalability, and systems support.</li> <li>• Physical and system security plan.</li> <li>• Service performance testing procedures.</li> <li>• Cost and price analysis.</li> </ul>
\$4,495,000	<ul style="list-style-type: none"> <li>• Demonstrates work similar in type and scope.</li> <li>• Demonstrates successful management of similar tasks.</li> <li>• Demonstrates contractor's ability to obtain employees or subcontractors based in the Washington D.C., area with special skills and required experience on date of award.</li> </ul>
\$2,398,363	<ul style="list-style-type: none"> <li>• Demonstrates work similar in type and scope.</li> <li>• Demonstrates successful management of similar tasks.</li> <li>• Demonstrates contractor's ability to obtain employees with skills and experience.</li> </ul>
\$2,307,532	<ul style="list-style-type: none"> <li>• Demonstrates work similar in type and scope.</li> <li>• Demonstrates successful management of similar tasks.</li> <li>• Demonstrates contractor's ability to obtain employees or subcontractors.</li> <li>• Demonstrates ability to adapt new and emerging technologies in telecommunication and enterprise information processing.</li> <li>• Demonstrates capability to design, implement, and maintain a security envelope for telecommunication and enterprise information processing infrastructure.</li> </ul>
\$1,883,000	<ul style="list-style-type: none"> <li>• Demonstrates understanding and use of commercial e-learning software and ability to integrate such into a system.</li> <li>• Demonstrates successful management of similar tasks.</li> <li>• Demonstrates the ability to establish a test environment in the Washington D.C., area.</li> </ul>
\$1,780,590	<ul style="list-style-type: none"> <li>• Demonstrates work similar in type and scope.</li> <li>• Demonstrates successful management of similar tasks.</li> <li>• Demonstrates contractor's ability to obtain employees or subcontractors with special skills and required experience.</li> </ul>

<sup>a</sup>These obligations include obligations that were made during our sample period from July 1 through December 31, 2001. The actual obligations to these task orders may be higher when they are completed.

Source: GAO's analysis of data from IRS.

To preserve simplicity and flexibility, the Congress provided contracting officers with broad discretion to define evaluation and selection procedures for placing orders. The Federal Acquisition Streamlining Act

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(FASA) of 1994<sup>3</sup> authorizes the use of multiple award task order contracts like TIPSS-2. The FAR further describes the fair opportunity process for competitive task order awards. The August 1999 version of the FAR, applicable to the TIPSS-2 contracts, states that

- contracting officers should consider factors such as past performance on earlier tasks, quality of deliverables, cost control, price, cost, or other factors that the contracting officer believes are relevant to the award of a task order; and
- procedures and selection factors that an agency uses to provide a fair opportunity to be considered for award must be set forth in the solicitation and contract.<sup>4</sup>

Although the August 1999 FAR language states that agencies should consider the selection factors listed, including price or cost, agencies were not required to do so. The solicitation for the award of the 18 contracts under TIPSS-2 was issued on September 13, 1999, and fell under these provisions. Thus, the TIPSS-2 procedures and the specific task orders we reviewed are acceptable under the applicable FAR provision. However, the FAR was changed to state that contracting officers must consider price or cost as a selection factor for competitive task orders. All multiple award task order contract programs, like TIPSS-2, that had solicitations for contracts issued on or after April 25, 2000, are required to consider price or cost as selection factors for competitive task orders.<sup>5</sup> Since the TIPSS-2 solicitation was issued before April 25, 2000, TIPSS-2 is covered by the earlier version of the FAR.

We discussed the lack of price or cost as a standard selection factor in the task order awards with IRS's TIPSS-2 program officials, IRS's contracting officials responsible for the TIPSS-2 program, and IRS contracting officials responsible for IRS contracting policy. These officials recognized the benefit of considering price or cost as a selection factor. During our review, IRS developed and implemented a new procedure that uses price or cost as a selection factor in competitive task orders under TIPSS-2.

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<sup>3</sup>P.L. 103-355 (Oct. 13, 1994).

<sup>4</sup>FAR 16.505(b)(1), (3) (FAC 97-12).

<sup>5</sup>FAR 16.505(b)(1)(ii)(E). *See* Competition Under Multiple Award Contracts, 65 Fed. Reg. 24317 (2000).

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Additionally, the TIPSS-2 contract was modified so that cost will be a selection factor in competitive task orders awards.

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## Conclusions

The competitive task order awards under TIPSS-2 from its beginning in June 2000 through June 20, 2002, were awarded using procedures that did not require price or cost as a selection factor but left this to contracting officers' discretion. In five of six cases we reviewed, contracting officers did not use that discretion to consider price or cost in making selections. Because consideration of price or cost helps agencies to ensure that they obtain the best value in awarding contracts, the FAR now requires that price or cost must be used as a selection factor in awarding task orders. Although this provision does not apply to the TIPSS-2 program because the TIPSS-2 solicitation was issued before the regulation was effective, the FAR provision applicable to the TIPSS-2 program states that the contracting officer should consider factors such as price or cost in awarding a task order. IRS recognized that including price or cost as a selection factor would improve the task order selection process and developed and implemented new procedures that consider price or cost as a selection factor in the award of task orders.

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## Agency Comments and Our Evaluation

On November 27, 2002, we received written comments on a draft of this report from the Acting Commissioner of Internal Revenue (see appendix II). The Acting Commissioner said that IRS generally agreed with the draft report but believed our recommendation that IRS finalize procedures for including price or cost as a selection factor was unnecessary.

Specifically, the Acting Commissioner said that IRS's contracting officials agreed with our observations in the draft report about the value of considering price or cost as a selection factor for competitive task order awards. He explained that, during our review, IRS had taken steps to include price or cost as a selection factor in TIPSS-2 task order awards and that IRS issued its final procedure on November 19, 2002. Since IRS finalized the procedure while commenting on our draft, we agree that this action made our recommendation unnecessary, and we deleted it from this report.

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As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies of this report to the Chairman and Ranking Minority Member of the House Committee on Ways and

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Means and the Chairman and Ranking Minority Member of the Subcommittee on Oversight, House Committee on Ways and Means. We are also sending copies to the Secretary of the Treasury; the Acting Commissioner of Internal Revenue; the Administrator of Federal Procurement Policy; and other interested parties. We will make copies available to others on request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you have any questions or would like additional information, please call me at (202) 512-9039 or Joseph Jozefczyk at (202) 512-9053. Key contributors to this report are Michael Kassack, Christine Davis, and Katherine Davis.

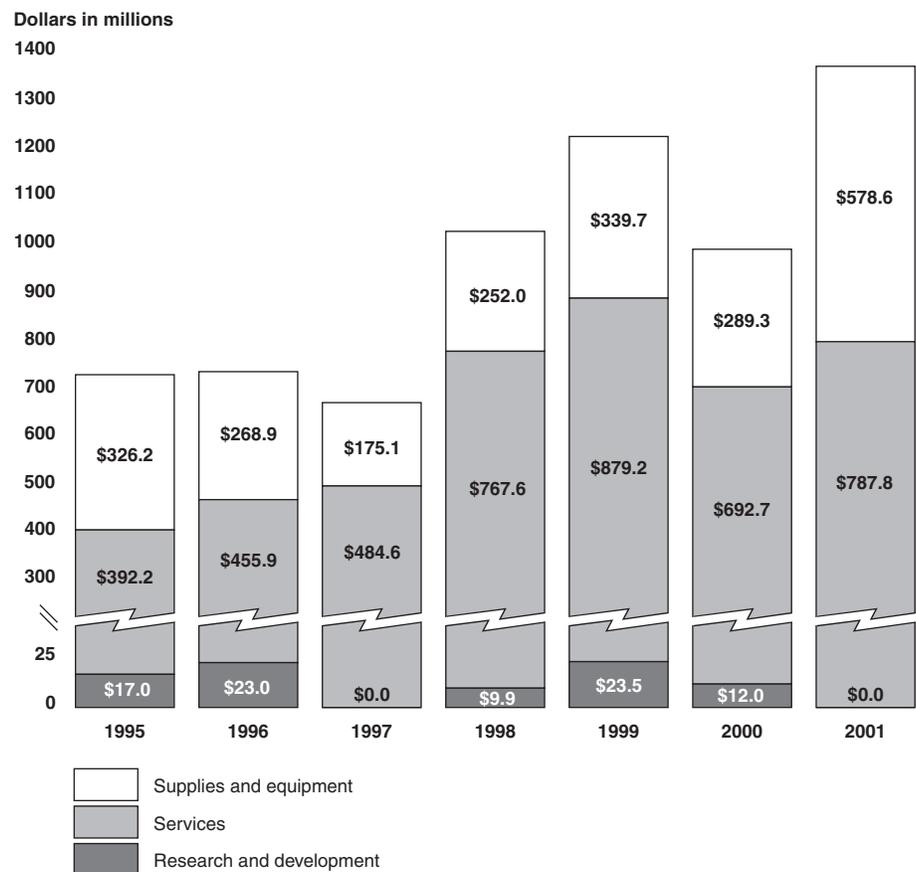


Michael Brostek  
Director, Tax Issues

# Appendix I: Information on IRS's and the Federal Government's Contract Obligations for Fiscal Years 1995 Through 2001

The Internal Revenue Service (IRS) contract obligations increased, with some fluctuation, from about \$735 million in fiscal year 1995 to about \$1.4 billion in fiscal year 2001—an increase of almost 86 percent. This increase, particularly that occurring after 1997, may be at least partially attributable to the systems and organizational changes resulting from IRS's Restructuring and Reform Act of 1998.<sup>1</sup>

**Figure 1: IRS Contract Obligations for Fiscal Years 1995 through 2001**



Note: Only includes funds newly obligated in the given fiscal year.

<sup>a</sup>Service obligations include funding for TIPSS-2 contracts task orders since their inception in June 2000.

Source: GAO's analysis of data from the Federal Procurement Data System.

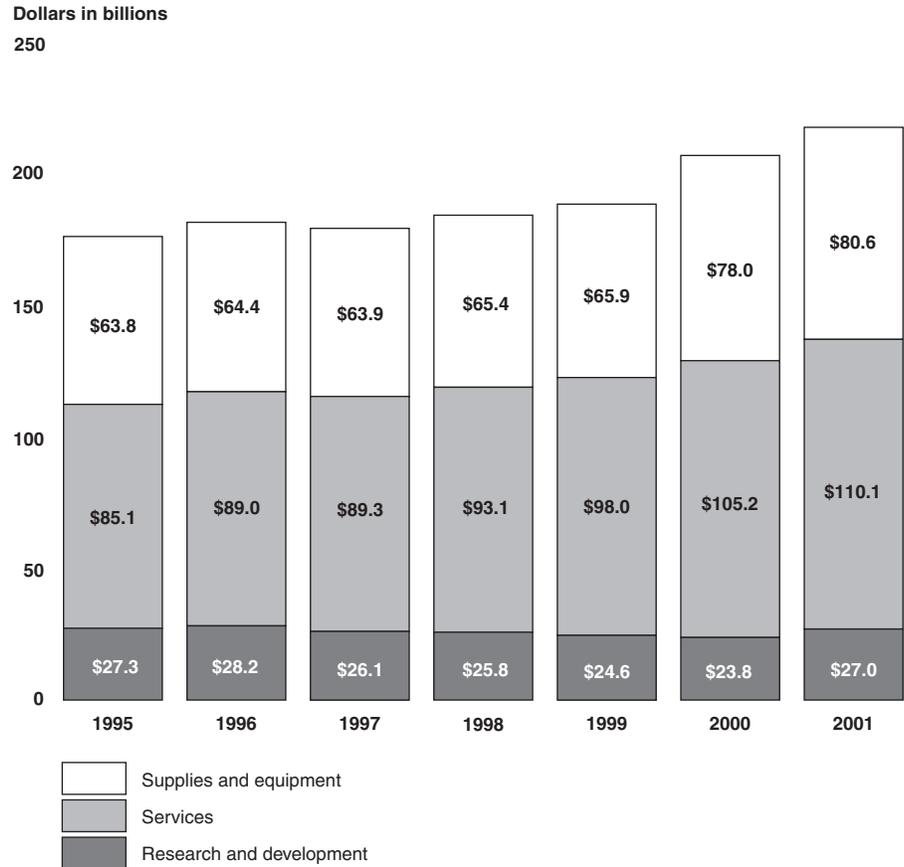
<sup>1</sup>P.L. 105-206 (July 22, 1998)

Figure 1 also shows that from fiscal years 1995 through 2001, IRS contracts for services consistently represented the largest proportion of dollar obligations—increasing from \$392.2 million in fiscal year 1995 to \$879.2 million in fiscal year 1999 and declining somewhat to \$787.8 million in fiscal year 2001. The overall increase between fiscal years 1995 and 2001 was almost 101 percent. Key services purchased by IRS include automatic data processing (ADP) and telecommunications; professional, administrative, and management support; and utilities and housekeeping.

Total federal government contract obligations grew from \$176.2 billion in fiscal year 1995 to \$217.7 billion in fiscal year 2001—an increase of about 23.6 percent. Figure 2 shows that on a year-to-year basis, total federal government contract obligations increased every year, with the exception of fiscal years 1996 and 1997, when obligations decreased by about 1.3 percent. As with IRS, the purchase of services represented the largest proportion of federal government contract obligations from fiscal years 1995 to 2001.

**Appendix I: Information on IRS's and the Federal Government's Contract Obligations for Fiscal Years 1995 Through 2001**

**Figure 2: Total Federal Government Contract Obligations for Fiscal Years 1995 Through 2001**



Notes: Executive branch only, including IRS.  
 Only includes funds newly obligated in the given fiscal year.

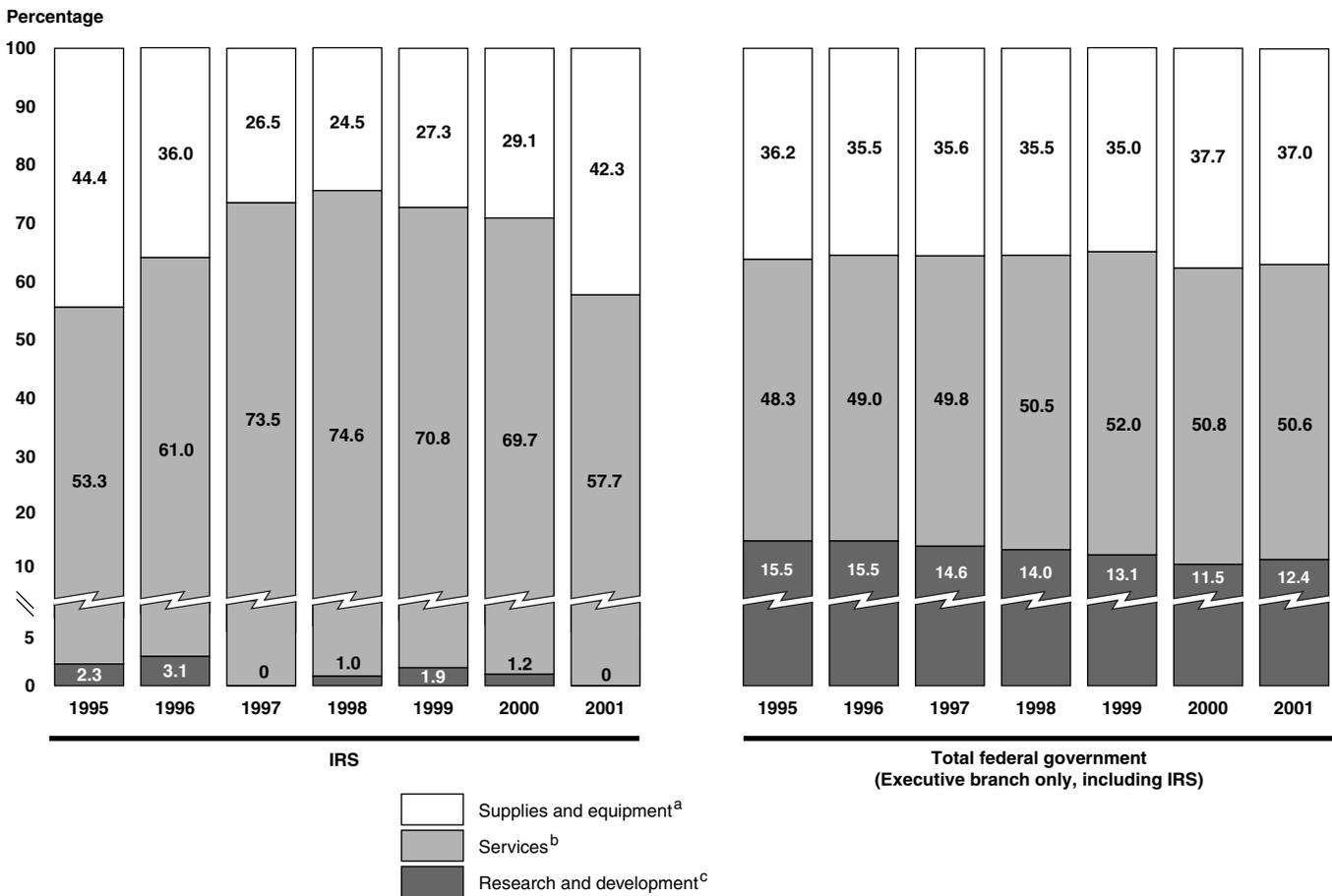
Source: GAO's analysis of data from the Federal Procurement Data System.

Figure 3 shows that when compared with total federal government contract obligations on a proportional basis for fiscal years 1995 to 2001, IRS's percentages fluctuate more than they do for the federal government as a whole. For the total federal government, supplies and equipment contract obligations only range from a low of 35 percent of the total in fiscal year 1999 to a high of 37.7 percent in fiscal year 2000. IRS supply and equipment contract obligations range from a low of 24.5 percent of the total in fiscal year 1998 to a high of 44.4 percent in fiscal year 1995. Likewise, total federal government contract obligations for services ranged from a low of 48.3 percent of the total in 1995, to a high of 52

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percent in fiscal year 1999. On the other hand, IRS contract obligations for service contracts range from a low of 53.3 percent of the total in fiscal year 1995 to a high of 74.6 percent in fiscal year 1998.

**Figure 3: Comparison of IRS to Total Federal Government Contract Obligations on a Percentage Basis, Fiscal Years 1995 through 2001**



Source: GAO's analysis of data from the Federal Procurement Data System.

Notes: Only includes funds newly obligated in the given fiscal year. Percentages may not add to 100 due to rounding.

<sup>a</sup>The supply and equipment category includes funds obligated for the purchase of items ranging from ADP equipment and software; to books, maps, and other publications; and to office supplies and furniture.

<sup>b</sup>The services category includes funds obligated for the purchase of services ranging from ADP and telecommunications; to professional, administrative, and management support; to transportation, travel, and relocation; and to education and training.

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<sup>c</sup>The research and development category includes funds obligated for any of the six R&D phases and is classified in areas ranging from agriculture and defense through transportation, social services, and space. Only a small proportion of IRS contract obligations were for R&D.

Table 3 identifies the major types of contractual services for which IRS obligated funds in fiscal year 2001, the most current year for which complete data are available. IRS's five largest service contract categories combined represent about 95 percent of the total service dollar obligations. Automatic data processing and telecommunications services alone represented 70.7 percent of the total obligations of about \$788 million.

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**Table 3: IRS Contract Obligations by Service Category for Fiscal Year 2001**

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Dollars in thousands	
<b>Service category</b>	<b>Dollars obligated</b>
Automatic data processing and telecommunications services	\$557,233
Professional, administrative and management support services	98,279
Utilities and housekeeping services	59,410
Maintain, repair, and rebuilding of equipment	20,543
Education and training services	13,734
Other	38,641
<b>Total</b>	<b>\$787,840</b>

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Source: GAO's analysis of data from the Federal Procurement Data System.

Table 4 identifies the major types of contractual supplies and equipment purchases for which IRS obligated funds in fiscal year 2001, the most current year for which complete data are available. IRS's contract dollar obligations for its five largest supply and equipment purchase categories combined represent about 98.6 percent of the total supplies and equipment obligations of about \$579 million. Contractual obligations for ADP equipment, software, supplies and support equipment alone accounted for about 81.2 percent of the total.

**Table 4: IRS Contract Obligations by Supplies and Equipment Category for Fiscal Year 2001**

Dollars in thousands	
<b>Supplies and equipment category</b>	<b>Dollars obligated</b>
Automatic data processing equipment (including firmware), software, supplies and support equipment	\$469,836
Communication, detection, and coherent radiation equipment	90,743
Special industry machinery	5,418
Training aids and devices	2,280
Books, maps, and other publications	1,931
Other	8,365
<b>Total</b>	<b>\$578,573</b>

Source: GAO's analysis of data from the Federal Procurement Data System.

Table 5 lists the prime contractors for all 18 of the IRS TIPSS-2 contracts and the funds that IRS has obligated to each of these contractors under the TIPSS-2 program.<sup>2</sup> Earlier in this report, we discuss our review of six competitive task order awards under IRS's TIPSS-2 program. In terms of dollar obligations, Booz, Allen & Hamilton is the largest of the 18 TIPSS-2 contractors, with about 34 percent of the total contract dollars. Systems Research and Applications Corp.; Northrup Grumman Information Technology, Inc.; and Accenture LLP also have significant proportions—10.9 percent, 10 percent, and 9.2 percent, respectively.

<sup>2</sup>Eighteen TIPSS-2 contracts were awarded in the mid-2000 timeframe. TIPSS-2 task orders can be awarded through June 2005 and are categorized in four principal task service areas—information systems, telecommunications support, organizational management, and operational support. TIPSS-2 obligations are classified as ADP and telecommunications services when reported in the Federal Procurement Data System. As such, TIPSS-2 obligations are also included in figures 1, 2, and 3 as a portion of IRS's and the federal government's obligations for services for fiscal years 2000 and 2001. Likewise, TIPSS-2 obligations are included as a portion of the ADP and Telecommunications Services category in table 3 and as a portion of IRS's obligations associated with the corresponding contractors in table 5.

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for Fiscal Years 1995 Through 2001**

**Table 5: Total IRS TIPSS-2 Obligations by Contractor from June 2000 through June 2002**

<b>Dollars in thousands</b>	
<b>Contractor</b>	<b>TIPSS-2 obligations</b>
Booz, Allen & Hamilton	\$184,329
Systems Research and Applications Corp.	59,256
Northrop Grumman Information Technology, Inc.	54,318
Accenture LLP	49,984
Science Applications International Corp.	40,412
DynCorp Systems & Solutions, LLC	34,255
Dynamics Research Corp.	27,664
Unisys Corp.	21,598
Management Systems Designers	18,328
IBM Global Services	13,256
TRW Federal Enterprises Solutions Division	12,483
Vector Research, Inc.	10,640
Computer & Hi-Tech Management, Inc.	4,794
Dichroma, Inc.	3,385
ITS Services, Inc.	2,714
Data Source, Inc.	2,673
Electronic Data Systems	1,944
Pragmatics Corp.	1,107
<b>Total IRS TIPSS-2 contract obligations</b>	<b>\$543,140</b>

Source: IRS's TIPSS Program Office's Contract Management System.

# Appendix II: Comments from the Internal Revenue Service



COMMISSIONER

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

November 27, 2002

Mr. David M. Walker  
Comptroller General  
U.S. General Accounting Office  
441 G Street, NW  
Washington, D.C. 20548

Dear Mr. Walker:

I am responding to your draft report titled, *IRS Contracting: Task Order Selection Factors Should Include Price or Cost*. The GAO reviewed selected task orders under the Treasury Information Processing Support Services (TIPSS-2) contracting program to determine if we used price or cost as a selection factor for award. We obtain information processing services to support modernization and other programs using this multiple-award, task order contracting program. The GAO found that our procedures for the TIPSS-2 program did not require contracting officers to consider price or cost. We generally agree with the draft report and we believe the recommendation is unnecessary.

In discussions with the GAO during the audit, our contracting officials emphasized they recognized the value of considering price or cost for competitive task orders and were developing a procedure requiring its use. On July 17, 2002, we changed all 18 TIPSS-2 contracts to reflect that cost is always a selection factor. As the GAO report indicates, we issued the draft "Standard Operating Procedure for TIPSS-2 Competitions" on September 13, 2002. On November 19, 2002, we issued the final procedure. We have implemented and tested the revised competitive procedure and it is working well.

We agree with the draft report's observations on the value of considering price or cost for competitive task orders and have finalized our procedures implementing this approach. Therefore, we ask that you delete the recommendation to adopt a final procedure.

Sincerely,

A handwritten signature in black ink that reads "Bob Wenzel".

Bob Wenzel  
Acting Commissioner

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