



Committee On Finance

Max Baucus, Chairman

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Contacts: Laura Hayes, Jill Gerber
202-224-4515

Joint Baucus-Grassley Statement Regarding GAO Report on IRS Contracting

Today, the General Accounting Office (GAO) released a report on the Internal Revenue Service's (IRS) contracting procedures and found that the IRS failed to take into account price or cost when contracting for services in the areas of information systems, telecommunications, organizational/management, and operational support. The IRS is in the midst of a massive and multifaceted effort to reorganize its structure and modernize its technology. To help with this effort, the IRS obtains needed services through contracts with outsider vendors/businesses.

Due to the increase in the number of IRS contracts with outside contractors, we requested the GAO investigation based on our concern that, given the enormous resource needs and constraints for the IRS, the IRS should consider price or cost in awarding contracts. Such factors appear an obvious part of any analysis when choosing a contractor. Nonetheless, in five of six cases reviewed, the IRS only looked at factors such as a demonstration of work similar in type and scope or a demonstration of the contractor's ability to obtain employees or subcontractors. We are pleased that the IRS has now changed its policy, as a result of the GAO's findings, to require consideration of price or cost in such contracts.

According to the GAO, the IRS's procedures conformed to the Federal Acquisition Regulation (FAR) in effect when the solicitation was issued, which required that contracting officers should consider price or cost as a selection factor but were not required to consider such factors. Despite the fact that FAR was revised in April 2000 to require consideration of price or cost, the IRS did not revise its contracting factors until November 2002.

The taxpayer dollars at issue are significant. From June 2000 to June 20, 2002, the IRS obligated \$543 million to 18 contracts, with more than a third (\$184 million) to one contractor. Taxpayers aren't interested in writing a blank check. As the Senate Committee charged with oversight of the IRS, we intend to ensure that the IRS is thorough in its evaluation of contracted services and efficient in administering our nation's tax laws.