

**WRITTEN TESTIMONY OF  
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INTERNAL REVENUE SERVICE  
BEFORE THE  
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
ON IRS PROCUREMENT  
JUNE 26, 2013**

**Introduction**

Chairman Issa, Ranking Member Cummings and Members of the Committee, thank you for the opportunity to testify on the work being done by the IRS Office of Procurement to support our operating divisions in carrying out the mission of the IRS.

In Fiscal Year (FY) 2012, the IRS processed more than 230 million individual and business returns, collecting \$2.5 trillion for the Federal Government and issuing \$373 billion in taxpayer refunds. These and other activities could not have been accomplished without the support of the Office of Procurement (IRS Procurement), which helps us obtain the technology and other tools needed to serve the American taxpayer. IRS Procurement delivers the IRS' acquisition planning, contract award and contract administration services, which enable our agency to provide taxpayers with help in understanding and meeting their tax responsibilities.

In FY 2012, IRS Procurement completed 17,402 contract actions, valued at \$1.9 billion. That total includes 6,146 IT-related actions made to 827 vendors, valued at \$1.4 billion. It is important to note that small businesses in all 50 states, received IRS procurement dollars last year. Numerous contract awards also fulfill important Government-wide procurement goals. For example, 546 of our contract actions to 78 different vendors -- approximately 4 percent -- went to businesses on the Small Business Administration's (SBA) list of Historically Underutilized Business Zone (HUBZone) businesses.

IRS Procurement follows not only bureau policies and procedures in the acquisition process, but also rules established by the Department of the Treasury (Treasury) and the Federal Acquisition Regulation (FAR). The IRS uses a number of different acquisition approaches and contract types to fulfill its requirements, including Blanket Purchase Agreements (BPAs), which may be established under any General Services Administration (GSA) contract. As a purchasing option, GSA Schedules are an efficient and convenient acquisition approach. Using a GSA contract allows ordering activities to benefit from additional price discounts, expanded opportunities for contractors, elimination of redundant effort by utilizing a single contracting vehicle that fulfills complex or ongoing needs, reduction of administrative time and paperwork, expanded business opportunities for underrepresented groups and help for procuring agencies in reaching various contracting goals.

The IRS has a proven history of obtaining excellent contract pricing and value. Between FY 2010 and FY 2012, the IRS achieved \$160.5 million in “hard” procurement savings as a direct result of contract negotiations. Over that same time period, we achieved \$188.2 million in “soft” procurement savings, which involves reducing or eliminating future costs as a result of streamlined processes.

### **Government-wide Contracting Goals**

The work done by the Office of Procurement is actually broader than simply acquiring goods and services for the IRS. Under federal regulations, IRS Procurement is also charged with making a strong effort to procure from small businesses, particularly those in various socioeconomic categories, including small disadvantaged businesses, women-owned businesses, service disabled veteran-owned business and HUBZone businesses. The IRS is committed to its Small Business Program, which generates opportunities for small businesses to create jobs and drive our economy forward. Owners of these small businesses include men and women who have bravely served our country in the military and have important technical expertise that can be of significant help to federal agencies in general and the IRS in particular.

The SBA establishes Government-wide goals for procurement awards to small business and those in socioeconomic programs, and Treasury establishes bureau-specific goals as well. In our efforts to determine the extent to which small businesses and businesses in socioeconomic programs should be awarded procurement contracts, we are guided by various federal rules and policies. For example, the GSA has stated that it strongly supports the participation of all categories of small business concerns in the GSA Schedules program. In addition, the FAR authorizes agencies to contract with small businesses and firms in certain socioeconomic categories using set-aside orders against task order contracts to small business concerns, or using socioeconomic status as an evaluation factor when awarding orders under the GSA Schedule contracts.

### **The Strong Castle Contract Awards**

Since FY 2012, the IRS has been doing business with Strong Castle, Inc. Strong Castle is certified as a Service Disabled Veteran Owned Small Business (SDVOSB), and was also certified as a HUBZone business until it was decertified by the SBA as of May 23, 2013. Strong Castle has provided support to the IRS in program management, and logistics support, and has had a record of delivering in accordance with contract terms and conditions.

In February of this year, this Committee sent a letter to Treasury raising questions regarding two IT-related BPAs that the IRS awarded to Strong Castle in December 2012:

- Computer equipment. One of the BPAs in question was for computer equipment and accessories for use by IRS, as well as all of Treasury. Strong Castle was

awarded a contract with a total potential value of \$79 million, and the IRS projected to achieve \$20 million in savings over the five-year contract, as compared to GSA Schedule pricing. After this contract was awarded, two other contractors who bid unsuccessfully challenged it, but the award was upheld by the Government Accountability Office (GAO). The IRS has made no purchases under this BPA.

- IBM software. The second BPA in question is an IBM Software Relationship Offering (SRO) involving licensing and product support for the IBM suite of products. This BPA, which was not subject to a protest, calls for the software, maintenance and services to be deployed enterprise-wide at all tiers from servers to desktops and laptops. The BPA, with an estimated value of \$266 million, replaced a previous contractual vehicle and has been projected to achieve savings of approximately \$92 million over the five-year contract period, as compared to GSA Schedule pricing. While 98 percent of the estimated value of this contract will flow to IBM, it is important to note that the work performed by Strong Castle fills a critical program management and logistics role that has been proven to be more efficient and effective in similar contracting efforts in the past. This model enables smaller firms to gain critical experience with both the IRS and large firms, often enabling them to grow both their internal capabilities and their revenue.

The Committee's inquiry involved whether improper conduct occurred between an IRS Procurement manager and Strong Castle, and whether that conduct would have led to the 2012 awards being steered to Strong Castle in violation of federal rules. The Committee also questioned whether Strong Castle improperly obtained certifications as a HUBZone business and a SDVOSB.

Upon receipt of the Committee's February letter regarding Strong Castle, I immediately referred the matter to the Treasury Inspector General for Tax Administration (TIGTA), which opened an investigation that is still underway. At my direction, officials with IRS Procurement and the IRS Office of Chief Counsel (Chief Counsel) have reviewed the documentation and correspondence related to the contracts under investigation and at this point have not seen or otherwise been made aware of any evidence of steering contracts to Strong Castle or any statutory or regulatory violations in connection with the award of these contracts. In addition, multiple levels of IRS leadership spoke with the manager in question regarding this inquiry and were assured that there was no improper relationship.

After receiving the Committee's February letter, the IRS also contacted the SBA to clarify Strong Castle's status as a qualified HUBZone business. Subsequently, the SBA decertified Strong Castle, effective May 23, 2013, noting that the company may not have met HUBZone qualifications on December 7, 2012. Following receipt of the decision, the IRS sought clarification from the SBA as to whether Strong Castle was considered a qualified HUBZone business in December 2012, when the two contracts in question were awarded. The SBA responded that it did not have the authority in this

circumstance to retroactively address Strong Castle's HUBZone status, and it reaffirmed that Strong Castle remained on the SBA's approved list of HUBZone businesses until the decertification was effective on May 23, 2013.

Because some of the information in the decision by the SBA to decertify Strong Castle as a HUBZone business calls into question the validity of the company's HUBZone status as of December 7, 2012, the IRS will not issue any future orders under the BPA for computer equipment. We do, however, have a critical and ongoing need for the services provided under the IBM/SRO BPA with Strong Castle, and failure to continue with this BPA would have significant implications and create critical operational challenges in the immediate term for the IRS. Thus, absent a finding of fraud or other wrongdoing by Strong Castle, we are continuing with this BPA. However, we are actively exploring other options to obtain these critical services through alternative means in the future.

Let me turn now to our actions in regard to the personnel matter. On May 15, 2013, TIGTA informed me that it had uncovered text messages sent to contractors from the personal phone of the IRS Procurement manager I mentioned earlier in my testimony. These messages indicated that this manager had a personal relationship with the contractors. From what has been shared with me to date, these messages are inappropriate and unacceptable. We expect all IRS employees, including those involved in procurement, to act with the highest ethical standards, and we operate IRS Procurement from an underlying foundation of integrity. Therefore, based on the information provided to us by TIGTA, I took immediate steps to have the manager reassigned to a non-supervisory position that does not involve the awarding or administration of contracts, pending the outcome of TIGTA's investigation.

Some of the inappropriate personal communications that have come to our attention were between this IRS Procurement manager and the principal owner of Strong Castle. Though we are not aware of any evidence that these communications inappropriately influenced the IRS' decision to contract with the company, we are concerned about the tone of the communications as well as the fact that the communications occurred between a contractor doing business with the IRS and an IRS Procurement official. These types of communications between the IRS and its vendors should not occur. We are taking the appropriate management steps to ensure that the IRS' relationship with Strong Castle is managed more appropriately, and we will re-emphasize to all IRS Procurement staff the ethics rules, including the rules regarding the appearance of impropriety and recusal.

### **Enhanced IRS Procurement Controls**

As a result of the questions raised about the Strong Castle awards, the IRS has taken and is continuing to take a number of actions to ensure that all activities in connection with procurement are proper and comply with the applicable laws and regulations.

As noted above, IRS Procurement officials have reviewed all documentation and correspondence related to the contract awards in question to ensure proper procedures were followed. Procurement officials have also reviewed the FAR, OFPP memoranda, Treasury directives and IRS policies to ensure compliance with all Small Business program requirements. Additionally, we have asked Treasury's Office of the Procurement Executive to expand its regular, routine assessment of IRS Procurement, to include a review of our Small Business Program requirements to ensure compliance with FAR and the OFPP memoranda. We expect that expanded review to be completed by the end of July.

We are also conducting an internal review focusing on overall procurement policy and processes, to include sampling of existing work products, training and business process, internal controls and reporting, segregation of duties and staffing practices, and the status of audit items and recommendations from entities that provide oversight. The target completion date for this peer review is September 2013.

In addition, Chief Counsel will continue to conduct an annual training course for all IRS Procurement officials that focuses on gift rules, conflicts of interest, impartiality and the appearance of impropriety, misuse of official position and other ethics issues.

## **Conclusion**

Mr. Chairman, Ranking Member Cummings, thank you again for the opportunity to appear before the Committee. The IRS remains committed to ensuring that our procurement of goods and services follows all agency and federal regulations and is done efficiently, effectively and with the highest ethical standards. We will continue reviewing and enhancing our controls and increase training of procurement staff as needed. In that way, IRS Procurement will continue to support the efforts of the IRS operating divisions in the work they do to carry out the mission of the IRS to enforce the tax laws and provide excellent taxpayer service. This concludes my statement, and I would be happy to answer your questions.