

**INTERNAL REVENUE SERVICE
COMPETITIVE SOURCING PROGRAM
OFPP/PEC Conference**



**Internal
Revenue
Service
Competitive
Sourcing
Office**

Washington, D.C.
November 14, 2002

IRS COMPETITIVE SOURCING GOALS

- ▶ Compete “Commercial” Functions

- 5% of commercial positions in FY02 – 1,091 FTE

- 10% of commercial positions in FY03 – 2,182 FTE

Total FY02/03 – 3,273 FTE

- Examining another 10-15% in FY04

IRS COMPETITIVE SOURCING PROGRAM INFRASTRUCTURE

- ▶ Organization – small central office
- ▶ Budget – competitive sourcing budgets for FY02 (\$3,905,000), FY03 (\$5,900,000)
- ▶ Procurement Support Plan – a flexible approach
- ▶ Project Management – individual project managers appointed by the function under review
- ▶ Review Process – Competitive Sourcing Coordination Group meets bi-weekly
- ▶ Decision Process – Competitive Sourcing Executive Steering Committee, chaired by the Commissioner

Strategic Approach to Competitive Sourcing

- ▶ Drivers:
 - Unprecedented recent reorganization
 - Massive IT modernization
 - Extensive ongoing business process reengineering
 - Very limited past experience with competitive sourcing
 - Bargaining Unit Participation

Major Development Challenges

- ▶ Affordability
- ▶ Risk/complexity
- ▶ Organizational load
- ▶ Accessing operating/productivity data
- ▶ Identifying full costs
- ▶ Bargaining unit interventions

WHY A BUSINESS CASE?

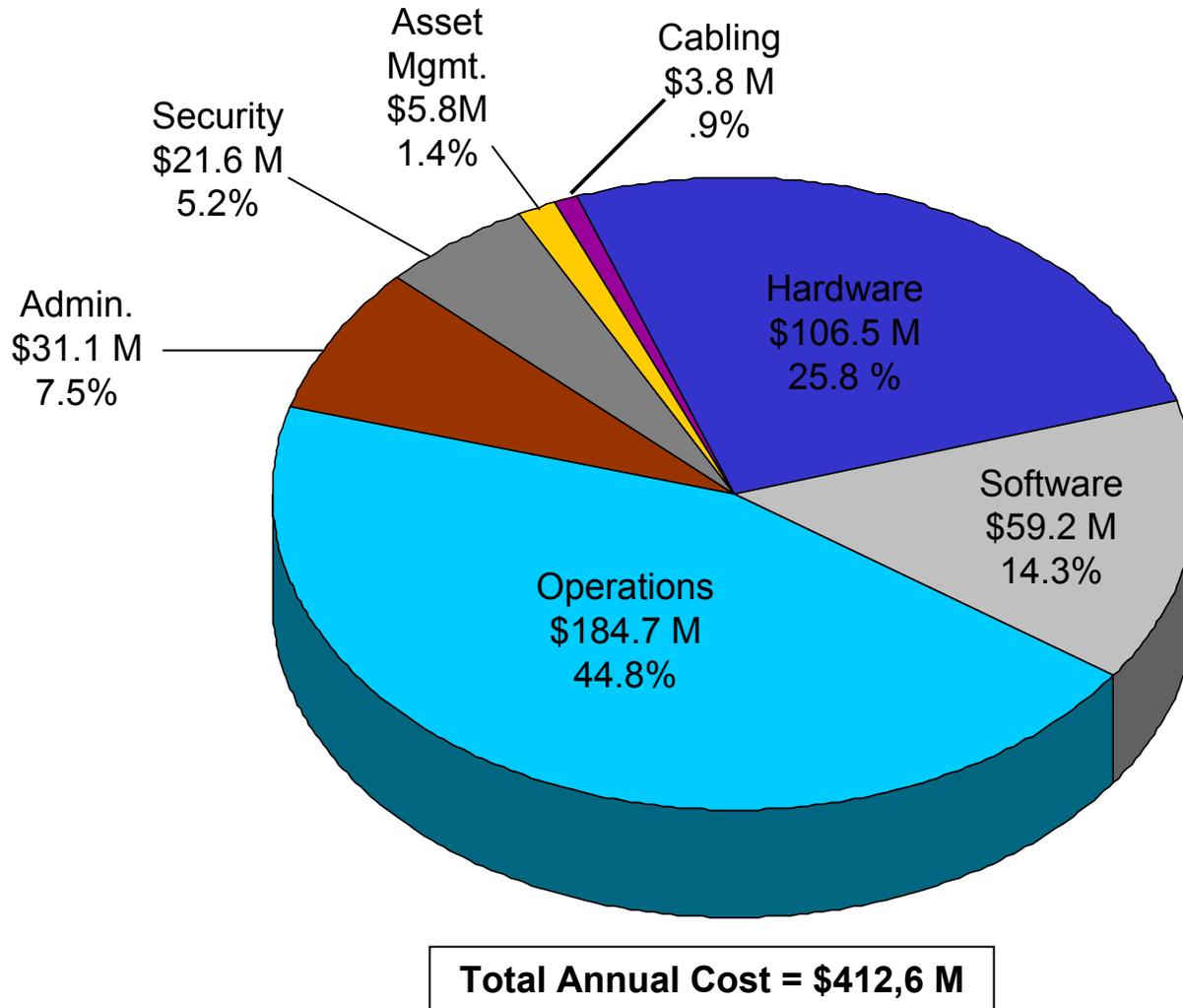
▶ The A-76 Process:

- does not align well with government agency strategic goals and performance improvement objectives – does not support mixed strategies
- is ill suited to complex knowledge-based, white collar, productivity/continuous improvement driven organizations
- assumes an economic and performance improvement payoff with little or no assurance before starting a competitive sourcing project
- is ultimately insensitive to culture, market forces, technology, and long-term economics
- imposes a cost comparison methodology which is static, mechanistic, and non-analytical

Business Case – Moving Parts

- ▶ Baseline operations and costs
- ▶ Define desired “to be” state
- ▶ Select sourcing alternatives
- ▶ Map economic performance of sourcing alternatives
- ▶ Evaluate cost sensitivity
- ▶ Perform risk analysis
- ▶ Make go-no-go decision

Baseline of Current Operations



Based on data obtained February 2002

Defining “To Be” Performance

<u>IRS Basic Service</u>	As-Is (1) IRS Assessment			To-Be (2)			Best Practice (3)			
	<u>Level</u>	<u>Scope</u>	<u>Peform. Index</u>	<u>Level</u>	<u>Scope</u>	<u>Peform. Index</u>	<u>Level</u>	<u>Scope</u>	<u>Peform. Index</u>	
Automated Software Distribution	2	80%	2.4	TBD	100%	TBD	4	100%	5	
Systems Management	0	50%	0.5	TBD	100%	TBD	4	100%	5	
Automated Backup and Restore	0	100%	1	TBD	100%	TBD	4	100%	5	
Hardware Physical Security Management	2	100%	3	TBD	100%	TBD	4	100%	5	
Service Desk Problem Management and Resolution	2	50%	1.5	TBD	200%	TBD	4	100%	5	
Data Security Management	0	100%	1	TBD	100%	TBD	4	100%	5	
Service Level Tracking and Management	0	35%	0.35	TBD	200%	TBD	4	100%	5	
User Training	0	100%	1	TBD	100%	TBD	4	100%	5	
Others	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	
			Total Index 34.39				Total Index TBD			

Downselecting Sourcing Alternatives

Decision Criteria

	IRS Mission		Operational Risk		Cost Savings Potential		Political Impacts	
Criteria Weight	4		3		2		1	

Alternative	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score	Total	
Privatization	3	12	1	3	4	8	2	2	25	
Cross-servicing	5	20	3	9	2	4	5	5	38	ISSA
A-76	6	24	5	15	6	12	6	6	57	A-76
In-house BPI	1	4	6	18	3	6	1	1	29	
Insourcing	2	8	4	12	1	2	4	4	26	
Outsourcing	4	16	2	6	5	10	3	3	35	Outsource

6=Complementary to mission
 1=Not complementary to mission

6=Least amount of oper. risk
 1=Greatest amount of oper. risk

6=Greatest savings potential
 1=Least savings potential

6=Least amount of neg. impact
 1=Greatest amount of neg. impact

Mapping Economic Performance

	Alternatives	FY02	FY03	FY09	TOTAL
Investment and Transition	Baseline	\$15,821,411	\$12,481,359	-	\$31,502,129
	A-76 MEO	\$15,882,192	\$18,978,932	-	\$75,839,417
	A-76 Outsource	\$15,882,192	\$18,978,932	-	\$127,352,029
	BPI	\$15,874,419	\$26,165,647	-	\$74,614,716
	Outsource (Waiver)	\$15,879,083	\$7,215,881	-	\$108,470,124
Recurring	Baseline	\$412,609,867	\$395,006,477	\$328,049,882	\$2,958,665,993
	A-76 MEO	\$412,609,867	\$395,006,477	\$338,887,222	\$3,007,679,494
	A-76 Outsource	\$412,609,867	\$395,006,477	\$353,922,706	\$3,177,826,627
	BPI	\$412,609,867	\$395,006,477	\$338,887,222	\$3,005,589,497
	Outsource (Waiver)	\$412,609,867	\$395,006,477	\$338,952,432	\$3,160,942,299
Total Costs	Baseline	\$428,431,278	\$407,487,856	\$328,049,882	\$2,990,168,122
	A-76 MEO	\$428,492,059	\$413,985,426	\$338,887,222	\$3,083,518,911
	A-76 Outsource	\$428,492,059	\$413,985,426	\$353,922,706	\$3,305,178,656
	BPI	\$428,484,286	\$422,712,954	\$338,887,222	\$3,080,204,213
	Outsource (Waiver)	\$428,488,950	\$207,222,428	\$338,952,432	\$3,269,412,424

Mapping Economic Performance (cont'd)

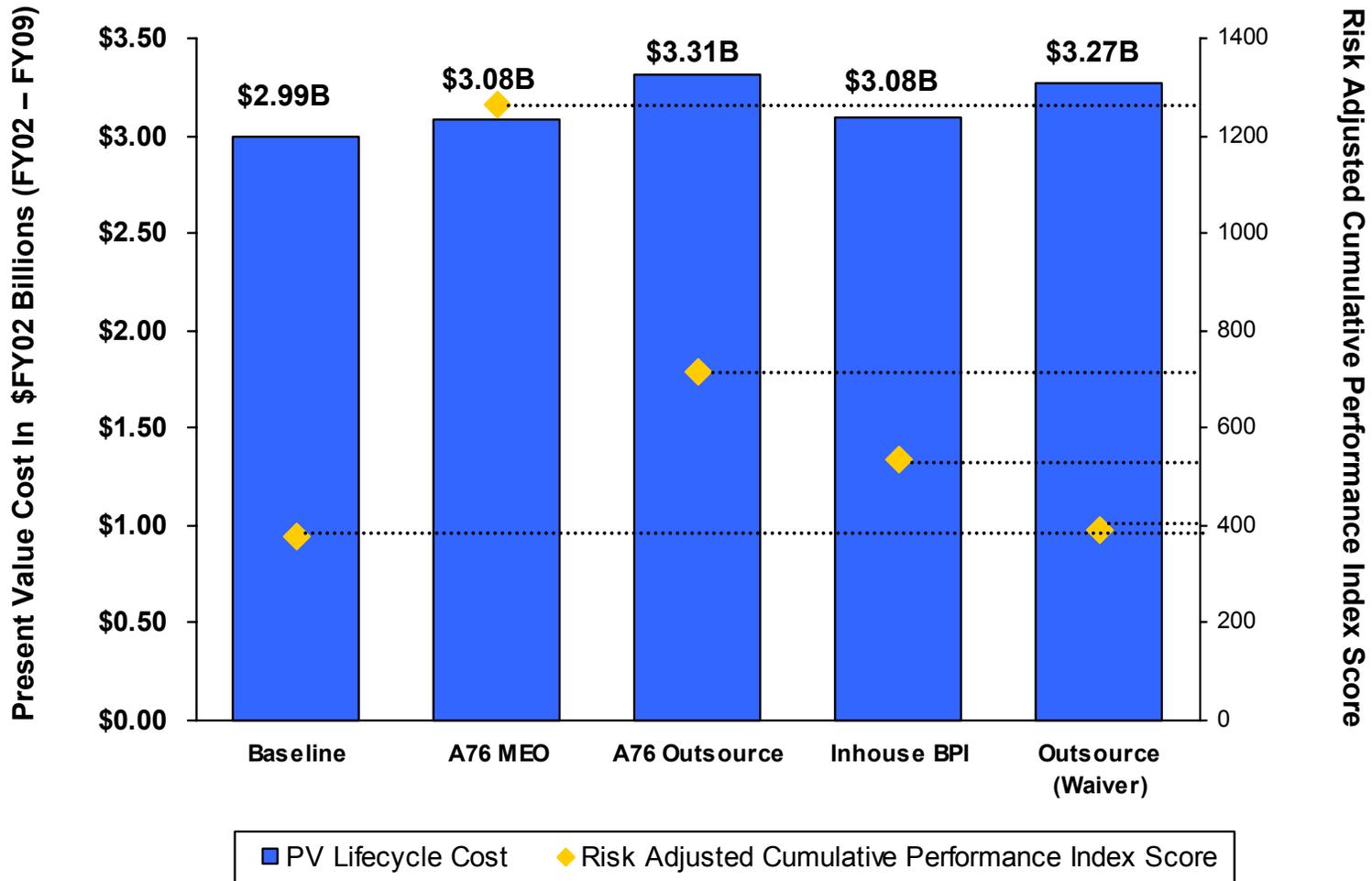
Summary of Present Value Lifecycle Costs

	Baseline	A-76 Study			Outsource
		(1) A-76 / Meo	(2) A-76 / GOCO	(3) A-76 / ISSA	(4) GOCO
Total Present Value Costs	217,218,648	204,114,534	198,666,285	206,252,628	194,465,599
Total Present Value Benefits		14,743,333	24,103,311	16,516,967	28,213,593
Net Present Value		189,371,201	174,562,974	189,735,661	166,252,007
Payback Period		FY05	FY07	FY07	FY05
Return on Investment		799.41%	334.22%	197.55%	416.68%
Cost Risk Analysis		LOW	MODERATE	MODERATE	MODERATE

Investment Cost Sensitivity

	<i>Baseline</i>	<i>A-76 MEO</i>	<i>A-76 Outsource</i>	<i>BPI</i>	<i>Outsource (Waiver)</i>
Technology Investments	\$23.7	\$23.7	\$23.7	\$23.7	\$15.8
Vendor Transition	\$-	\$-	\$4.5	\$-	\$4.5
Personnel Transition	\$-	\$16.8	\$5.9	\$17.8	\$6.0
Disposal	\$7.8	\$7.8	\$7.8	\$7.8	\$6.5
Severance Pay	\$-	\$0.4	\$4.9	\$0.4	\$5.0
Annual Leave	\$-	\$0.8	\$11.2	\$0.8	\$11.6
Buy Out Pay	\$-	\$3.1	\$37.4	\$3.3	\$38.5
Early Out Pay	\$-	\$1.5	\$18.3	\$1.6	\$18.8
A-76 Study Costs	\$-	\$12.8	\$12.8	\$-	\$-
Planning	\$-	\$0.1	\$0.1	\$0.1	\$0.1
Implementation Management	\$-	\$8.9	\$-	\$19.1	\$-
RFP Costs	\$-	\$-	\$-	\$-	\$0.7
Total Present Value Cost	\$31.5	\$75.9	\$126.6	\$74.6	\$107.5

Risk Analysis



Making a Decision

Criteria	Alignment with Competitive Sourcing Goals		Investment and Transition Cost		Recurring Savings		Performance Index Score		Affordability		Risk		Total Score
	10%		20%		10%		15%		15%		30%		
Criteria Weight	Raw Score	Weighted Score	Raw Score	Weighted Score	Raw Score	Weighted Score	Raw Score	Weighted Score	Raw Score	Weighted Score	Normalized Score	Weighted Score	Total Score
A-76 MEO	1.00	0.10	2.00	0.40	2.00	0.20	1.00	0.15	1.00	0.15	1.00	0.30	1.30
A-76 Outsource	1.00	0.10	4.00	0.80	4.00	0.40	2.00	0.30	3.00	0.45	2.00	0.60	2.65
In-house BPI	4.00	0.40	1.00	0.20	1.00	0.10	3.00	0.45	2.00	0.30	3.00	0.90	2.35
Outsource (Waiver)	1.00	0.10	3.00	0.60	3.00	0.30	4.00	0.60	4.00	0.60	4.00	1.20	3.40
	1=Receive Credit for FTEs 4=No Credit for FTEs		1=Least Investment 4=Most Investment		1=Most Savings 4=Least Savings		1=Most Performance 4=Least Performance		1=Most Affordable 4=Least Affordable		1=Lowest Risk 4=Highest Risk		

KEY SUCCESS FACTORS

- ▶ Assumptions drive the business case – must be validated by experts
- ▶ All significant direct and indirect costs associated with the function must be captured and modeled if necessary
- ▶ Estimates must be consistently conservative, optimistic, etc.
- ▶ Risk analysis must be applied to benefits
- ▶ Competitive Sourcing project scope/content must be aligned with ongoing reorg/ reengineering activities