TREASURY COMMUNICATIONS SYSTEM

OIG-01-020 NOVEMBER 24, 2000

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information requiring protection from public dissemination has been redacted from this report in accordance with the Freedom of Information Act, 5 U.S.C. section 552.

Office of Inspector General

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United States Department of the Treasury

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 24, 2000

MEMORANDUM FOR JAMES J. FLYZIK
DEPUTY ASSISTANT SECRETARY FOR INFORMATION SYSTEMS
AND CHIEF INFORMATION OFFICER

FROM: Dennis S. Schindel
Assistant Inspector General for Audit

SUBJECT: Audit Report on Treasury Communications System

This memorandum transmits our final audit report titled *Treasury Communications System*. We are reporting our findings and recommendations that will help the Department to ensure customers are billed appropriately for services and equipment used for the Treasury Communications System (TCS) program.

Our review revealed that the Department made changes and proposals to improve customer satisfaction and enhance financial management. However, further actions are needed to ensure customers have access to a cost effective telecommunications infrastructure to carry out their missions. Our findings are summarized in the Overview and explained in further detail in the Audit Results section of the report. Also, the report includes five recommendations that are contained in the applicable sub-sections of the Audit Results section.

Your office concurred with most of our findings and recommendations, and provided satisfactory implementation actions. You did not agree with our recommendation to develop an action plan to address recommendations made by the Gartner Group and customers concerns. However, you provided a satisfactory alternative action to address the issue. We have summarized the initiatives underway to implement the recommendations in the Audit Results section of the attached report and included a complete text of the response to our report as Appendix 4.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you wish to discuss this draft report, you may contact me at (202) 927-5400 or a member of your staff may contact Barry L. Savill, Director, Program Audits at (202) 927-2968.

Attachment

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Overview

This report presents the results of the Office of Inspector General's (OIG) audit to determine if the Department is effectively managing the services offered through, and equipment used for, the Treasury Communications System (TCS). We conducted this audit to help the Department determine if customers are appropriately billed for services and equipment.

Our audit revealed that the Department made several changes and proposals to improve customer satisfaction and enhance its management of TCS. For example, a corporate-wide focus on telecommunications and information technology (IT) was developed for the Department and TCS customers. The Department outlined the vision of how future telecommunications and IT customer needs will be met and provided goals for future plans and activities for achieving the vision.

While the Department made strides to improve the TCS program, further improvements are needed in the areas of financial activities and program administration. To address these areas, we are making five recommendations for corrective action.

Background

TCS is the largest secure, private wide-area network in the United States (U.S.) civilian Government today. It replaced the Consolidated Data Network with a telecommunications infrastructure that integrates the capabilities offered through the Federal Telecommunications System (FTS) 2000[1] and network based services. TCS is viewed as the framework for the Department's information infrastructure that enables a wide selection of applications, such as providing simplified tax and wage reporting, linking law enforcement agencies for public safety, and developing an international trade database. It provides a centralized network and management system to support its customers' mission by integrating their respective information systems, and it supports a wide range of services, including video conferencing, multimedia applications, and Internet/Intranet access.

[1] FTS 2000 is the Government's long-distance telecommunications program administered by the General Services Administration. FTS 2000 is a private network providing voice, data and video services to more than 1.4 million Federal employees in 3,500 locations. The Department uses FTS 2000 for all non-local voice services and for data services mandated by *Federal Information Resources Management Regulations*.

Customers supported by TCS include the Department's bureaus and offices listed below and the Department of Justice. In January 1998, TCS served over 6,000 nationwide customer locations accommodating over 150,000 users and employing in excess of 10,000 communication circuits. The technical requirements for the customers vary widely. Some customers have very low traffic volumes and require connections between a small number of locations, while other customers have much greater traffic and need connections between and among many locations. In this report, we refer to the bureaus and offices as customers.

TCS customers in the Department of the Treasury are:

Departmental Offices' Automated Systems Division
Bureau of Alcohol, Tobacco and Firearms
Bureau of Engraving and Printing
Bureau of the Public Debt
U.S. Customs Service (Customs)
Federal Law Enforcement Training Center
Financial Crimes Enforcement Network (FinCEN)
Financial Management Service
Internal Revenue Service (IRS)
U.S. Mint
U.S. Secret Service (Secret Service)
Executive Office of Asset Forfeiture (EOAF)
Office of the Comptroller of the Currency
Office of Inspector General
Office of Thrift Supervision
Treasury Information Management Information System (TIMIS)

TCS services are provided through a 10-year Indefinite Delivery/Indefinite Quantity contract structured to provide a flexible infrastructure to accommodate redefined requirements and allow the Department to harness new technologies as they become available. The contract was awarded in 1995 for $425 million.

In Fiscal Year (FY) 1998, TCS customers paid $162.4 million into the Working Capital Fund (WCF) to cover TCS program costs. The costs include customer specific costs, shared costs, and Departmental Offices (DO) overhead. Customer specific costs are ongoing, recurring costs that are customer specific in nature due to location, use, or specific requirements. Shared costs are labor and program management costs to operate the TCS network, costs associated with shared activities that each customer utilizes, and anticipated costs for service enhancement. DO overhead consists of costs incurred by the Financial Management Division (FMD) to process financial management activities relating to the TCS program.

The Office of Corporate Systems Management (CSM), also referred to as the Program Management Office (PMO), is responsible for the overall operation of the TCS program, and it operates under the direction of the Department's Deputy Assistant Secretary for Information Systems and Chief Information Officer (CIO). The PMO's duties include, but are not limited to, providing a full range of network and IT products and services from initial planning and design through development and integration, as well as operation and maintenance. PMO is also responsible for ensuring that telecommunications policies, procedures, and contractual support are provided.

Objective, Scope and Methodology

The overall objective of this audit was to determine if the Department is effectively managing the services offered through, and equipment used for, TCS. Specifically, we determined if customers were appropriately billed for services and equipment.

We conducted our audit at the PMO facility in Washington, DC, and the joint facility occupied by PMO officials and the TCS contractor in McLean, Virginia, from April 1999 through September 1999. We attended Information Sharing Sessions held to exchange information between the PMO, the contractor, and customer users. We met with contractor representatives to determine what inventory data was available. We also visited TCS warehouses in Sterling, Virginia. In addition, we met with FMD officials to obtain an explanation of FMD's role in the billing process.

We interviewed customers to discuss their participation in the TCS program and to identify current concerns. We met with customer personnel that handle the telecommunications requirements and needs for Customs, FinCEN, Secret Service, TIMIS, and EOAF on behalf of the Department of Justice. We reviewed financial and program data for FY 1998 to the second quarter of FY 1999. Other time periods were covered as deemed necessary to address the audit objective.

A list of abbreviations used in this report is included as *Appendix 1*.

We conducted our work in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and included such audit tests as were deemed necessary.

Audit Results

Changes and Proposals Made to Improve Customer Satisfaction and Enhance Management of TCS

PMO made changes and proposals to improve customer satisfaction and enhance its management of the TCS program. The actions taken are listed below.

- Developed a Concept of Operations which is the vision of how future telecommunications and IT customer needs will be met. The concept provides goals for future plans and activities for achieving the vision, and shifts the Government's role to oversight rather than implementation.

- Established an annual Service Request Resource Agreement (SRRA) for each customer. The SRRA quantifies the expected services required during the year to establish contractor resource levels and the cost of the contract to each customer.

- Shifted the contract structure for providing telecommunications and IT services. On October 1, 1999, the PMO initiated a performance-based contract that will be the umbrella for all telecommunications and IT services. During our review, PMO and the contractor were jointly developing performance standards to articulate schedule and quality parameters to include performance incentives and penalties.

- Revised the policy for maintenance on equipment used for the TCS program. This revision granted TCS customers the authority to choose between paying for time and material versus a monthly fee.

- Identified customer needs throughout the year by holding monthly Information Sharing Sessions attended by representatives from PMO, TCS contractor, and TCS customers. *Appendix 2* is a list of accomplishments highlighted by PMO for 1999.

The actions being worked on by the Department during our review included: (1) a new funding strategy; (2) a plan to standardize service ordering; (3) a web-based ordering system; and (4) an automated financial management system to standardize billing, invoice resolution, and information management to meet customer needs.

The above improvements could be attributed to the transition from the Consolidated Data Network to TCS and the reorganization of the CIO's office. Senior management in the CIO office recognized the need to change information management. Thus, senior management made a commitment to improve key functions critical to building a modern information management infrastructure by: (1) making customer needs and mission goals the central drive of all organizational improvement efforts; (2) objectively measuring performance; (3) tightly controlling IT investments; and (4) taking action to improve and maintain momentum.

It is our belief that the actions taken and proposed will enhance program operations, allow greater flexibility in regards to contract support, improve the quality of financial activities, refine network availability, and narrow the gap between customer expectations and delivery of services.

Financial Activities and Program Administration Need Further Improvement

The PMO made some strides to improve customer satisfaction and enhance its management of TCS; however, further actions are needed to ensure customers have access to a cost effective telecommunications infrastructure and assets are safeguarded. The PMO officials were made aware that improvements are still needed in the areas of (1) financial activities and (2) program administration. TCS customers voiced their concerns to the PMO at monthly Information Sharing Sessions and through memoranda sent to the Director, CSM. Also, the Gartner Group, an outside consulting firm, made recommendations for improvement in these two areas to the PMO as a result of a review that was just completed at the time we performed our fieldwork (see *Appendix 3* for the recommendations). While we recognize that PMO officials may not have had sufficient time to assimilate an action plan to address the recommendations, PMO officials had not developed and shared a formal action plan to address customer concerns. Details on the specific issues relating to financial activities and program administration that require management's attention are contained in the applicable sub-section of this report.

The Federal Managers' Financial Integrity Act of 1982 requires renewed focus on the need to strengthen internal accounting and administrative controls in order to prevent fraud, waste, and mismanagement in Federal programs and operations. Internal control techniques include, but are not limited to, specific policies, procedures, and plans of the organization. Management should adopt methods and procedures to ensure its goals are met. Organizational structure, processes, and practices used should be documented and appear in management directives, administrative policy, and accounting manuals.

Financial Activities

Five TCS customers that we visited voiced concern in three areas: (a) shared costs and DO overhead charges; (b) funds available/obligated; and (c) billing issues. Overall, customers did not understand what they were being charged for, and they believed that the charges for shared costs and DO overhead were excessive. Furthermore, they did not always know their current TCS balances, and bills were not always timely and accurate.

Shared Costs and DO Overhead Charges

The shared costs and DO overhead of the TCS program were not clearly discernable to its customers. Consequently, the customers perceived that they were paying more than their share of these costs, and they did not understand what services were covered by the charges. This condition existed because neither the PMO nor the TCS contractor developed an adequate method to communicate the breakdown and line item explanation of TCS program costs. Although PMO attempted to explain the shared costs and DO overhead charges by providing a handout during the May 7, 1999 Information Sharing Session, the customers still did not understand what was included as shared costs and DO overhead charges.

Additionally, customers noted that total shared costs and DO overhead charges exceeded their total specific costs. Total shared costs and DO overhead charges increased as the specific costs decreased. More than half of the customers' funds that were put into the WCF covered shared costs and DO overhead charges. Table 1 is a breakdown of funds put into the WCF to cover TCS program costs for FYs 1998 and 1999, respectively.

Table 1

TCS Program Costs	FY 1998 (in millions)	FY 1999 (in millions)
Customer Specific Costs	$ 113.5 (70 percent)	$ 57.3 (44 percent)
Shared Costs	$ 42.7 (26 percent)	$ 66.7 (52 percent)
DO Overhead	$ 6.2 (4 percent)	$ 5.0 (4 percent)
Total TCS Program Costs	$ 162.4 (100 percent)	$ 129 (100 percent)

Source: *Consolidated Fiscal Year TCS Costs* (Financial Plans)

Officials in the PMO and FMD stated that they were aware of the customers' concerns regarding TCS costs. The Gartner Group recommended that a rigorous analysis and evaluation of the entire TCS cost structure should be undertaken. However, by the end of our fieldwork, a rigorous analysis had not been conducted to evaluate the entire TCS cost structure. To address shared

costs, PMO officials stated that they are looking into reducing the customers' costs by obtaining appropriations to cover a portion of shared costs related to all provided telecommunication services.

To address DO overhead concerns, FMD officials explained that a statement of work was prepared for a contractor to look at how DO overhead was developed for all WCF activities. Currently, all programs under the WCF pay the same four percent rate for DO overhead. The contractor will determine if the DO overhead rate is fair and equitable across all WCF activities and programs.

Funds Available/Obligated

Customers found it difficult to develop their financial plans (budget needs), and they did not always know their TCS-related fund balances. Consequently, the true cost for the TCS program was unknown to its customers, and the risk of violating anti-deficiency rules was present. In fact, as discussed below, one customer was unaware of a provided service that should have been included in its financial plan and another customer had to re-program $1.2 million late in the fiscal year to cover its TCS costs. These problems can be attributed to the failure to provide sufficient financial guidance and descriptive invoices.

Sufficient financial guidance is needed for two reasons: (1) to provide a realistic cost estimate and (2) to assist in the reconciliation of TCS-related funds. TCS customers operate on a FY basis, but activities funded through the WCF are no-year funds. No-year funds can be counted on for use in multi-year projects, thus eliminating the need to spend all funds within a given FY.

An example to support the need to provide cost estimate guidance and, as discussed in the Billing Issues sub-section of this report, descriptive invoices is IRS' payment of a T-1 communications line that should have been paid by FinCEN. The cost for this line was substantial, but FinCEN was unaware that the line cost should have been included in its financial plan. Upon discovery, FinCEN had to retroactively pick up the cost of the line for the last 2 years.

Several customers stated that it is very difficult to project the budget and to trace bills back to the service request and FY. For example, the Secret Service had to quickly obtain $1.2 million to avoid anti-deficiency. Secret Service used funds from one of its non-appropriated programs to cover this cost.[2] Many customers stated that they would like to have integrated systems to help them manage their funds.

[2] Secret Service's TCS costs were obtained from the Asset Forfeiture Program and not from its appropriations.

Billing Issues

Customers were not timely provided bills for recurring TCS charges and maintenance trouble ticket charges for verification, and the bills did not sufficiently describe the service provided. Bills also contained numerous discrepancies, and billing issues were not timely resolved. The customers believe that many of these billing problems are attributed to the lack of documentation maintained by the contractor and the lack of integrated systems to effectively manage the program. Neither the contractor nor the PMO had accurate TCS financial records. Due to these many billing problems, customers refused to approve certain invoices for payment. Examples of billing problems are provided below.

- Bills were not timely submitted and did not sufficiently describe the service provided. Customers received bills for trouble ticket maintenance costs dating back to 1996. This issue was addressed at the Information Sharing Session held on July 16, 1999. A PMO official disclosed that the contractor was owed [redacted] for maintenance from 1996 to December 1998, and [redacted] for December 1998 to the present. However, payment to the contractor was being withheld until contract issues, such as who could authorize services, were resolved and the bills were verified. It was agreed during this meeting that the contractor would work with the customers towards resolution.

- Secret Service was overcharged in excess of [redacted] due to a calculation error in the TCS billing system's formula for lease-to-own property. The system multiplied the cost per unit by the number of units twice (e.g., [redacted] per unit x 3 units x 3 units). Secret Service officials identified the error, and it took the contractor more than 2 months to correct the formula. These officials questioned the system's accuracy, and stated that they were unable to reimburse customers for shared costs and DO overhead charges as errors are found.

- TIMIS was charged for site-drawing revisions that were certified as being completed, but TIMIS discovered that the drawings were never done. Additionally, the contractor offered to refund the money even though TIMIS never paid for the drawings.

- TIMIS was paying maintenance on items that were in a warehouse for 3 years in the original boxes. These items were never installed; they were excessed after being declared non-Year 2000 compliant. TIMIS officials stated that similar financial and billing problems existed over the years, and TIMIS has gotten no satisfaction towards expedient resolution.

It is vital for the Department to employ sound financial management of the TCS program. A method needs to be established as soon as possible to provide the Department and the TCS customers with an itemized and detailed explanation of all TCS costs. Additionally, a financial management system is needed to provide customers with detailed cost information and adequate documentation to manage their program. Finally, financial related problems need to be promptly resolved and adjustments made to all affected customer(s) accounts when errors are identified, including errors found in shared costs and DO overhead charges.

Program Administration

Administration of the TCS program needs to be strengthened to: ensure customers have the necessary resources to identify and effectively apply approved TCS policies and procedures, avoid the need for temporary alternative services, and control assets. Our review disclosed that customers did not receive sufficient guidance and requested work was not always timely performed. These conditions existed because the contractor was not held to all of the contract's deliverables due to other priorities. Also, a user-friendly method for tracking and identifying TCS equipment was not in place. An independent and complete physical inventory was not taken because the contractor had responsibility for managing the inventory and allowed customers to submit documentation in lieu of a physical count in support of their inventory.

Program administration includes providing direction and guidance to the customers and managing the program's operation to effectively and efficiently meet its goal. Managing the contract includes assuring that the contractor is responsive to the customers needs and requirements, milestones and timeframes are met, and deliverables are provided.

Guidance

Although the contract included a requirement to provide documented policies and procedures, we noted that several were not documented, such as billing procedures. Also, draft policies and procedures were submitted to the TCS customers for comment but were never finalized. As reflected below, several documents have been in draft for a long period of time.

- Draft property management policies and procedures, dated February 11, 1998.

- Draft revision on the policy for TCS Service requests/service order, dated May 12, 1998.

- Draft flowchart to explain the financial management process that consisted of budget formulation and fund administration, dated October 8, 1997.

For those policies and procedures that were in draft, customers have been following them even though the policies and procedures were not finalized. New policies and procedures must be forwarded to the legal division for review and approval before they are finalized.

According to PMO officials, the contractor did not document all policies and procedures because some contract deliverables were outdated and repetitive. The officials further stated that a consultant will be obtained to assist the PMO in documenting TCS policies and procedures, and the draft documents will be finalized once approved by the legal division.

Service Requests

Customers perceived that the contractor was not complying with the TCS contract because the contractor had not done sufficient or timely work. Specifically, the contractor was not able to handle all service requests and took too long to get requested work done. Since certain service requests were not timely completed, customers had to absorb unnecessary expenses. For example, a customer had to obtain an alternative telecommunications service to perform necessary work because the contractor did not timely respond to the request for service. The customer planned to cancel the alternative service when TCS is operational. According to PMO officials, other priorities may have taken place.

Inventory Control Methodology

Several customers maintained their own TCS property inventory system because the contractor's inventory methodology was not compatible with their needs and requirements. In our attempt to conduct a physical inventory at selected sites, we also found the contractor's method difficult to associate with the equipment. We were only able to identify TCS equipment items with assistance from the PMO, customer representative, and/or the contractor. The difficulty in identifying the equipment occurred because contract line item numbers were used to track and identify each part, rack, assembly kit, accessory, and equipment item instead of serial numbers or bar codes. Same model items did not contain a unique identifier to designate ownership. In addition, the contractor used another method of tracking and identifying excess equipment located at the TCS warehouse. The contractor tracked excess equipment by location in the warehouse and used a separate program to track incoming and outgoing items.

Physical Inventory

The PMO lacked assurance that an accurate physical inventory of TCS assets was taken. In FY 1999, a physical inventory of TCS equipment was taken for the first time since the present contract was awarded in 1995. TCS customers were permitted to have the contractor verify the inventory for a fee or verify it themselves. Several large customers used their own property management system for verification because, as discussed above, the contractor's records were not user-friendly. By not requiring a party independent of the contractor to perform the physical inventory, the Department and its customers are exposed to potential fraud, waste, and abuse.

It is vital for the Department to make further improvements to: ensure customers have the necessary resources to identify and effectively apply approved TCS policies and procedures, avoid the need for temporary alternative service, and control assets. Formal controls provide reasonable assurance that: the program is achieving its intended results; cost-effective measures are taken; and assets are protected from waste, fraud, and mismanagement. Effective internal controls also help in managing change to cope with shifting environments and evolving demands and priorities. As programs change and as agencies strive to improve operational processes and implement new technological developments, management must continually assess and evaluate its internal controls to assure that the control activities being used are effective and updated when necessary.

Recommendations

1. The Deputy Assistant Secretary for Information Systems and Chief Information Officer should ensure that an action plan is developed and documented to address the TCS recommendations made by the Gartner Group and customer concerns. For each recommendation and concern, the action plan should contain: action to be taken, individual or group responsible for implementing the action, milestone(s) to fully implement the action, and date the action was completed. In the event no action will be taken on an item, management should document the reason(s). To effectively manage TCS and satisfy its customers, the action plan should be kept up-to-date on the status of each item and periodically disseminated to appropriate management officials and stakeholders.

Management Response and OIG Comment

The CIO believes that the development of an action plan is not necessary. It would place an unnecessary burden on the TCS program staff. Program direction,

activities, and results, which support the Gartner recommendations, are already discussed and documented in the forums mentioned below. The Gartner Group report referenced in this recommendation was a result of a task from the CIO's office to analyze and document recommendations to improve the TCS Program. The report was fully briefed and discussed at a TCS Board of Directors meeting. As a result, the Board recognized these issues, and together with the development of a TCS Concept of Operations, provided the necessary direction for the staff to improve the TCS Program.

A number of Treasury forums and groups have been actively involved in moving the program forward to meet the recommendations in the Gartner Group report. These include:

- The TCS Information Sharing Session. This group is comprised of bureau program managers meeting monthly to discuss program direction, new requirements, and common issues and problems.

- Capital Investment Review Board. This senior Treasury executive investment board receives quarterly updates on the strategic direction of TCS. Corporate funding, management topics and economic analysis of TCS directions are actively discussed.

- Treasury Communications Enterprise Strategic Working Group. This group was formed in May 2000, after bureau representatives attended a strategic training session sponsored by the General Services Administration. This group began focusing on the overall strategic direction of TCS, and is an example of developing a cohesive, multi-bureau group to move the program forward, and to breakdown the traditional stovepipe behavior which in the past has inhibited the program from moving forward.

The OIG believes that the proposed action addresses the intent of the recommendations as long as TCS program staff maintain documentation to show program direction, activities, and results including milestones to fully implement the action and the date the action was completed. In the event no action will be taken on any item, management should be prepared to explain the reason(s).

2. The Deputy Assistant Secretary for Information Systems and Chief Information Officer should ensure that an analysis is conducted on all TCS related costs to determine those costs that should be charged to TCS customers. It is critical that the study be conducted as soon as possible to manage the TCS program in the most cost-effective manner. Upon completion, customers should be briefed on the analysis to ensure understanding and reasonable agreement with the final results.

Management Response and OIG Comment

The CIO indicated that CSM has several initiatives underway which will enable the TCS customers and PMO to better manage and monitor shared costs, funds available/obligated and billed/unbilled items. These initiatives include:

a) Establishment of a structured financial planning process. This process enabled the CSM Financial Management Office, TCS program staff, and customers to build jointly developed out-year IT plans and budget formulation plans for FYs 2001-2002. This effort resulted in better quality financial plans for FY 2001 for both shared costs and bureau specific cost items.

b) Establishment of improved, documented processes for financial accounting activities. The CIO's response indicated that CSM is establishing standard operating procedures as well as standard reports which will enable and enhance communications with the customers on financial plan amounts/adjustments, delivery order tracking and monitoring, planned and actual expense tracking and funds available/carryover. This information will be readily available to TCS customers.

c) Establishment of improvements in the billing/invoicing area. These improvements focus on changes in the financial plan task categories, which will assist TRW and FMD, to track and invoice TCS services effectively. Historically, the bureaus have submitted service request/service orders for processing without having properly identified funding mechanisms in place, or without adequate funding available, which has negatively impacted billing and invoice accuracy. To remedy this problem, separate delivery orders were created for the following activities: maintenance/circuits, bureau specific special projects, and network moves, adds and changes. Establishing these separate delivery orders will allow CSM to implement usage based billing and fee for service financial/billing processes, which will drive down the shared costs and allow each bureau to pay for services based on the services they actually use. The result will be improved and equitable accounting processes/systems.

The OIG believes that the initiatives underway address the intent of the recommendation to provide the Department and the TCS customers with detailed cost information and adequate documentation to manage their program.

3. The Deputy Assistant Secretary for Information Systems and Chief Information Officer should ensure that sound financial management and inventory processes and systems are maintained. The financial management process should require:

documentation be maintained to support invoices; invoices include a description for each charge; and prompt resolution and adjustment for all affected customer(s) accounts when errors are identified, including errors found in shared costs and DO overhead charges. The financial management system should provide timely and sufficient information to meet the TCS customer needs, such as current account balances, date and description of service requested, and date services were completed. To safeguard assets, the TCS property and equipment should be controlled in a manner to easily identify each item's location and owner. A party independent of the contractor should perform the physical inventory.

Management Response and OIG Comment

The CIO indicated that CSM, TCS PMO, TCS customers, and the TCS contractor all have specific responsibilities to maintain effective financial management and inventory processes for the TCS program. Specifically, regarding inventory management, each party has a responsibility to maintain accurate records of inventory information and to track and monitor their inventory effectively.

During the Year 2000 (Y2K) Program, CSM facilitated efforts with all parties to ensure that as Treasury prepared for the millennium change, its systems were baselined, each item tracked, and either upgraded or replaced to mitigate any system risks to the Department. TCS Y2K activities were successful and problem-free for the Treasury Department. During Y2K, CSM tasked several independent contractors to validate and cross check the inventory databases for accuracy. These independent contractors' tasks proved very valuable to CSM, as they were able to identify several inaccuracies and allowed CSM to improve the inventory baseline for the Y2K effort. The CIO further indicated that while CSM is confident that the inventory is accurate, it is not easily obtained and formatted to allow user-friendly analysis. CSM is in the process of analyzing how to make improvements in this area.

CSM has made financial management improvements. Specifically, CSM created a system for tracking and approving invoices. This system is called Corporate Financial Invoice Tracking System (CFITS). Significant savings in productivity have been realized during the short life of the system. The time spent on coordination and approving manual invoicing has been drastically reduced. Although CFITS has improved the invoice process, it does not address the issues of invoice errors or withhold procedures when completed services and costs are not aligned.

In FY 2001, the CSM Financial Management Office will have standard operating procedures for invoice/billing resolution in alignment with prompt pay regulations, and property/inventory management procedures in alignment with the Treasury

Capital Assets Tracking guidelines. Also, in preparation for FY 2001, CSM has established new standard reports for Treasury and the bureaus to improve tracking of funding amounts, account balances, expenses, and contractor workload start and completion information.

The OIG believes that the changes and proposed actions address the intent of the recommendation.

4. The Deputy Assistant Secretary for Information Systems and Chief Information Officer should ensure policies and procedures are promptly designed, documented, finalized, and distributed to the TCS stakeholders. Priority should be given to finalizing and providing adequate financial guidance to the TCS customers. The guidance should address formulating and executing the budget and relating how the budget process works in relation to service requests/orders.

Management Response and OIG Comment

The CIO believes that CSM is making improvements in terms of the way by which it conducts business with its customers. CSM is developing "business rules" with its constituents to solidify and improve how Treasury will work more effectively with its customers. These guidelines will enable CSM to better define expectations from both various organizational entities as well as customers. In preparation for FY 2001, CSM is defining and documenting the following key areas:

- Program Management – Expectations and roles and responsibilities for program service level expectations of Treasury/CSM and bureau CIO/Staffs;

- Budget Formulation – Expectations and roles and responsibilities for financial plan/timelines, joint requirement/workload planning and cost estimating for bureau specific service requests/service orders; and

- Budget Execution – Expectations and roles and responsibilities for invoicing, timely payment of services delivered, etc.

Also, in FY 2001, the CSM organization is refining and solidifying the CIO Information Technology Manual, a Treasury CIO policy directive which will articulate to the customers/bureaus specific guidelines for utilizing services from CIO/CSM corporate systems, such as TCS. In addition, working with the CIO Financial Management Office, CSM is refining the overall lifecycle of the budget formulation process for its programs.

The OIG believes that the changes and proposed actions address the intent of the recommendation.

5. The Deputy Assistant Secretary for Information Systems and Chief Information Officer should hold the contractor accountable to eliminate unnecessary expenses due to the contractor's inability to respond to a service request. For example, a timeline for submitting the request for service and completing the work could be determined and agreed to by the Department, contractor, and TCS customers.

Management Response and OIG Comment

According to the CIO, CSM has initiated several changes in FY 2000 to the TCS contract in terms of how to effectively hold the TCS contractor accountable for timeliness of services delivered.

- The TCS contract is a performance based contract with an award fee incentive, based on outcome-oriented results and agreed to customer expectations (e.g., timelines).

- The TCS contract will migrate from the former process of managing by service request to managing by customer-driven statement of work and Government negotiated delivery orders. This approach will enable TCS customers and Treasury contract staff to better monitor and manage the workload of the TCS contractor and delivery date schedules, using positive and negative incentives to allocate contractor payment.

- These TCS contract changes will enable CSM to manage and monitor the contractor's performance and costs related to bureau tasks/requirements more effectively. The service request process will atrophy over time, due to the implementation of project and performance management principles and guidelines within the TCS program. CSM is migrating to a results-oriented focus, which will encourage the TCS contractor to perform better to receive the positive incentives associated with timely, quality service delivery.

As CSM migrates the TCS program from its legacy technologies and program structure to a commercial service oriented program, service level agreements will drive the delivery of service offerings. Service level agreements are in place today for some of the new work that CSM initiated for its customers in FY 2000. These agreements will be further refined, and new ones developed to insure that the TCS program is delivering dependable, timely services.

The OIG believes that the changes and proposed actions address the intent of the recommendation.

ABBREVIATIONS

CFITS	=	Corporate Financial Invoice Tracking System
CSM	=	Corporate Systems Management
Customs	=	U.S. Customs Service
CIO	=	Chief Information Officer
DO	=	Departmental Offices
EOAF	=	Executive Office of Asset Forfeiture
FinCEN	=	Financial Crimes Enforcement Network
FMD	=	Financial Management Division
FTS 2000	=	Federal Telecommunications System 2000
FY	=	Fiscal Year
IRS	=	Internal Revenue Service
IT	=	Information Technology
OIG	=	Office of Inspector General
PMO	=	Program Management Office
Secret Service	=	U.S. Secret Service
SRRA	=	Service Request Resource Agreement
TCS	=	Treasury Communications System
TIMIS	=	Treasury Integrated Management Information Systems
WCF	=	Working Capital Fund

1999 TCS ACCOMPLISHMENTS

- Subcontracts Successfully Completed for Commercial Interchange Carrier Service
- Completed Year 2000 for Critical Systems
- Developed Concept of Operations for Treasury Communications Enterprise
- Operated Network Successfully
- Met All Service Level Commitments – Reorganized to Reduce Service Timelines and Streamlined Processes
- Implemented New Integrated Network Management Service Capability
- Continued to Work Customer Requirements Proactively
- Implemented New Internet Architecture to Improve Service
- Planned and Initiated New Technology
- Initiated a Performance-based Contract on October 1, 1999
- Progressed in Planning and Implementing "Fee for Service" to Reduce Costs
- Moved to a New Facility to Support "Production Line" Organization

PRELIMINARY RECOMMENDATIONS MADE BY THE GARTNER GROUP

1. Address the business leadership challenges around a shared network utility. The Department, its bureaus, supported organizations, and business partners must achieve alignment on goals and objectives for TCS to be effective, and if the Concept of Operations is to be realized.
   - Stakeholders need to reach and demonstrate agreement on their support for TCS and Concept of Operations. Behavior will visibly signal their support for the Department's intent.

2. The Bureaus, PMO, and contractor need to establish their costs and apply/use that information in making sound investment and support/staffing decisions. A rigorous analysis and evaluation of the TCS cost structure should be undertaken.

3. The program must establish and maintain an accurate inventory and baseline. The contractor must be strongly encouraged to continue its recovery from historical program issues (inventory, billing, and backlog).

4. Information sharing sessions should be used to steer the Department and network direction. The program should consider using professionally facilitated workshops to develop the right parameters and tools for this unique networking environment.

5. Performance parameters should be incorporated into performance improvement processes and used as tools to promote learning. The use of parameters or service level agreement data to change vendors without customer's knowledge or consent, or illustrate Bureaus' inability to plan should not be tolerated.

6. Integrated, on-going planning processes need to be developed with the participation of key stakeholder organizations. Forecasting rigor and discipline need to evolve into core organizational competencies.

7. With improvements in parameters and performance management, the establishment of a cooperative work environment, and improvements in forecasting and planning, the contractor must be encouraged to revamp internal processes to reduce cycle times and improve its perceived responsiveness.

8. PMO should be given the budget authority to support its program responsibilities. With budget, PMO must improve its technical competencies and deliver value to the Bureaus by directing and guiding key process improvement initiatives.

9. Treasury, its Bureaus, and key stakeholders must resolve funding issues associated with the lack of synchronization between multi-year programs and single-year budgets.

10. The Indefinite Delivery/Indefinite Quantity contract structure and contract line item number format should be replaced with a market and client needs focused agreement.
    - Rather than call out specific ports and cables, the structure should center around agreed upon "common denominators" for data networking services -- a limited number of standard configurations and services.
    - The agreement should incorporate incentives to motivate desired behaviors and outcomes.

MANAGEMENT RESPONSE

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 22, 2000

MEMORANDUM FOR DENNIS S. SCHINDEL
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: James J. Flyzik
Deputy Assistant Secretary for Information Systems
and Chief Information Officer

SUBJECT: Draft Office of Inspector General Audit (OIG) Report on Treasury Communications System (TCS), (Ref. Memorandum: Draft Report on Treasury Communications System, August 25, 2000)

This memo is written in response to the Office of the Inspector General's (OIG) draft audit report, which addresses two key areas of concern regarding the Treasury Communications System (TCS) Program managed by the Corporate Systems Management (CSM) Office. The areas of specific review in the report include:

- **Determining if the Department is effectively managing the services offered through TCS**
- **Determining if customers are being billed appropriately for services and equipment**

We appreciate the analysis and time spent by the OIG to take note and validate the progress our office has made within the TCS Program. As noted in your report, during the timeframe the audit was conducted, we were in the process of implementing many steps to improve customer satisfaction and enhance our financial management processes. Since the end of the audit period in September 1999, we have made considerable additional strides to improve our business processes and customer relations in the areas of financial management and billing. These are noted in the paragraphs in response to your proposed recommendations.

However, we do recognize that TCS program improvement is a continuing process to deliver services in a timely, dependable manner and within an efficient financial cost structure. The principles and directions outlined in your recommendations are in agreement with the TCS Board of Directors guiding concept of operations, program principles, and directions. As such, the recommendations proposed, especially those described in recommendation number one, are being actively pursued and implemented by my office. As noted in our response to recommendation one, I feel that the requirement of an action plan is not necessary, and will only add an unnecessary burden to the TCS Program office.

MANAGEMENT RESPONSE

In summary, it is our expectation that the processes underway will improve the financial accountability of our program, increase customer satisfaction, and provide better service delivery for the TCS Program and its customers.

Recommendations/Responses:

1) **OIG Recommendation**:

The Deputy Assistant Secretary for Information Systems and Chief Information Officer should ensure that an action plan is developed and documented to address the TCS recommendations made by the Gartner Group and customer concerns. For each recommendation and concern, the action plan should contain: action to be taken, individual or group responsible for implementing the action, milestone(s) to fully implement the action, and date the action was completed. In the event no action will be taken on an item, management should document the reason(s). To effectively manage TCS and satisfy its customers, the action plan should be kept up-to-date on the status of each item and periodically disseminated to appropriate management officials.

CIO Response:

The Gartner Group report referenced in this recommendation was a result of a task from my office to analyze and document recommendations to improve the TCS Program. The report was fully briefed and discussed at a TCS Board of Directors Meeting. As a result, the Board recognized these issues, and together with the development of a TCS Concept of Operations, provided the necessary direction for my staff to improve the TCS Program.

In addition, a number of Treasury forums and groups have been actively involved in moving the program forward to meet the recommendations in the report. These include:

- *The TCS Information Sharing Session. This group is comprised of bureau program managers meeting monthly to discuss program direction, new requirements, and common issues and problems.*

- *Capital Investment Review Board. This senior Treasury executive investment board receives quarterly updates on the strategic direction of TCS. Corporate funding, management topics and economic analysis of TCS directions are actively discussed.*

- *TCE Strategic Working Group. This group was formed in May 2000, after bureau representatives attended a strategic training session sponsored by GSA. This group began focusing on the overall strategic direction of TCS, and is an example of developing a cohesive, multi-bureau group to move the program forward, and to breakdown the traditional stovepipe behavior which in the past has inhibited the program from moving forward.*

As noted above, and in our responses to other OIG recommendations, a number of activities currently exist to meet the objectives of the Gartner report. The development of an action plan is not necessary. It would place an unnecessary burden on the TCS program staff. Program direction, activities, and results, which support the Gartner recommendations, are already discussed and documented in the forums mentioned above.

MANAGEMENT RESPONSE

2) OIG Recommendation:

The Deputy Assistant Secretary for Information Systems and Chief Information Officer should ensure that an analysis is included for all TCS related costs to determine those costs that should be charged to TCS customers. It is critical that the study be conducted as soon as possible to manage the TCS Program in the most cost-effective manner. Upon completion customers should be briefed on the analysis to ensure understanding and reasonable agreement with the final results.

CIO Response:

Corporate Systems Management has several initiatives underway which will enable the TCS customers and the TCS Program Management Office (PMO) to better manage and monitor shared costs, funds available/obligated and billed/unbilled items. These initiatives include:

a) *Establishment of a structured financial planning process. This process enabled the CSM Financial Management Office, TCS program staff, and customers to build jointly developed out-year IT plans and budget formulation plans for FY01-02. This effort resulted in better quality financial plans for FY01 for both shared costs and bureau specific cost items.*

b) *Establishment of improved, documented processes for financial accounting activities. We are establishing standard operating procedures as well as standard reports which will enable and enhance communications with the customers on financial plan amounts/adjustments, delivery order tracking and monitoring, planned and actual expense tracking, and funds available/carryover. This information will be readily available to our customers.*

c) *Establishment of improvements in the billing /invoicing area. These improvements focus on changes in the financial plan task categories, which will assist TRW and the Financial Management Division (FMD), to track and invoice TCS services effectively. Historically, the bureaus have submitted Service Request/Service Orders (SRs/SOs) for processing without having properly identified funding mechanisms in place, or without adequate funding available, which has negatively impacted billing and invoice accuracy. To remedy this problem, we created separate delivery orders for the following activities: Maintenance/Circuits, Bureau specific Special Projects, and Network Moves, Adds and Changes. Establishing these separate delivery orders will allow CSM to implement usage based billing and fee for service financial/billing processes, which will drive down the shared costs and allow each bureau to pay for services based on the services they actually use. The result will be improved and equitable accounting processes/systems.*

MANAGEMENT RESPONSE

3) OIG Recommendation:

The Deputy Assistant Secretary for Information Systems and Chief Information Officer should ensure that sound financial management and inventory processes and systems are maintained. The financial management process should require that: documentation be maintained to support invoices including a description for each charge; and prompt resolution and adjustment for all affected customer(s) accounts when errors are identified, including errors found in shared costs and Departmental Office (DO) overhead charges. The financial management system should provide timely and sufficient information to meet TCS customers needs, such as current account balances, date and description of service requested and date services were completed. To safeguard assets, TCS property and equipment should be controlled in a manner allowing easy identification each item location and owner. A party independent of the contractor should perform the physical inventory.

CIO Response:

Corporate Systems Management, the TCS PMO, TCS customers, and the TCS Contractor all have specific responsibilities to maintain effective financial management and inventory processes for the TCS Program. Specifically, regarding inventory management, each party has a responsibility to maintain accurate records of inventory information and to track and monitor their inventory effectively.

During the Y2K Program, CSM facilitated efforts with all parties to ensure that as we prepared for the millenium change, our systems were baselined, each item tracked, and either upgraded or replaced to mitigate any system risks to the Department. Because of the due diligence of our staffs, TCS Y2K activities were successful and problem-free for the Treasury Department. During Y2K, CSM tasked several independent contractors to validate and cross check our inventory databases for accuracy. These independent contractor tasks proved very valuable to CSM, as we were able to identify several inaccuracies, and allow us to improve our inventory baseline for the Y2K effort. While we are confident that our inventory is accurate, it is not easily obtained and formatted to allow user-friendly analysis. We are in the process of analyzing how we can make improvements in this area.

CSM has made significant Financial Management improvements. Specifically, we have created a system for tracking and approving invoice. This system is called Corporate Financial Invoice Tracking System (CFITS). Significant savings in productivity have been realized during the short life of the system. The time spent on coordination and approving manual invoicing has been drastically reduced. Although CFITS has improved the invoice process, it does not address the issues of invoice errors or withhold procedures when completed services and costs are not aligned.

In FY01, the CSM Financial Management Office will have standard operating procedures for invoice/billing resolution in alignment with prompt pay regulations, and property/inventory management procedures in alignment with the Treasury Capital Assets Tracking guidelines. Also in preparation for FY01, CSM has established new standard reports for Treasury and the

MANAGEMENT RESPONSE

Bureaus to improve tracking of funding amounts, account balances, expenses, and contractor workload start and completion information

4) OIG Recommendation:

The Deputy Assistant Secretary for Information Systems and Chief Information Officer should ensure policies and procedures are promptly designed, documented, finalized, and distributed to the TCS Stakeholders. Priority should be given to finalizing and providing adequate financial guidance to TCS customers. The guidance should address formulation and execution, of the budget, and communicating how the budget process works in relation to service requests and service orders.

CIO Response:

CSM is making major improvements in terms of the way by which we conduct business with our customers. We are developing ***"business rules"*** *with our constituents to solidify and improve how Treasury will work more effectively with our customers. These guidelines will enable CSM to better define expectations from both our various organizational entities as well as our customers. In preparation for FY01 CSM is defining and documenting the following key areas:*

- ***Program Management*** *- Expectations and roles and responsibilities for Program Level Service Level expectations of Treasury/CSM and bureau CIO/Staffs*
- ***Budget Formulation*** *- Expectations and roles and responsibilities for financial plan/timelines, joint requirement/workload planning and cost estimating for bureau specific Service Requests/Service Orders*
- ***Budget Execution*** *- Expectations and roles and responsibilities for invoicing, timely payment of services delivered etc.*

Also in FY01, the CSM organization is refining and solidifying the CIO Information Technology Manual, a Treasury CIO policy directive which will articulate to the customers/bureaus specific guidelines for utilizing services from CIO/CSM corporate systems, such as TCS. In addition, working with the CIO Financial Management Office, we are refining the overall lifecycle of the budget formulation process for CSM programs.

MANAGEMENT RESPONSE

5) OIG Recommendation:

The Deputy Assistant Secretary for Information Systems and Chief Information Officer should hold the TCS Contractor accountable to eliminate unnecessary expenses due to the Contractor's inability to respond to service requests. For example, a timeline for submitting the request for service and completing the work could be determined and agreed to by the Department, TCS Contractor, and TCS customers.

CIO Response:

CSM has initiated several significant changes in FY00 to the TCS Contract in terms of how to effectively hold the TCS Contractor accountable for timeliness of services delivered.

- *The TCS Contract is a Performance Based Contract with an Award Fee incentive, based on outcome-oriented results and agreed to customer expectations (e.g., timelines).*

- *The TCS Contract will migrate from the former process of managing by service requests to managing by a customer-driven Statement of Work (SOW) and Government negotiated Delivery Orders (DOs). This approach will enable TCS customers and Treasury contract staff to better monitor and manage the workload of the TCS Contractor and delivery date schedules, using positive and negative incentives to allocate Contractor payment.*

- *These TCS Contract changes will enable CSM to manage and monitor the Contractor's performance and costs related to bureau tasks/requirements more effectively. The Service Request process will atrophy over time, due to the implementation of project and performance management principles and guidelines within the TCS Program. We are migrating to a results-oriented focus, which will encourage the TCS Contractor to perform better to receive the positive incentives associated with timely, quality service delivery.*

As we migrate the TCS program from its legacy technologies and program structure, to a commercial service oriented program, service level agreements (SLAs) will drive the delivery of service offerings. SLAs are in place today for some of the new work we initiated for our customers in FY00. These SLAs will be further refined, and new ones developed to insure that the TCS program is delivering dependable, timely services.

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