GENERAL MANAGEMENT: The Office of Accounting and Internal Control's Management Process Related to an Information Technology Project

OIG-01-069 May 1, 2001

Office of Inspector General

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The Department of the Treasury

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Abbreviations

AIC	Accounting and Internal Control
ISLC	Information System Life Cycle
ITC	Inventory, Tracking and Closure
IT	Information Technology
OMB	Office of Management and Budget

May 1, 2001

James R. Lingebach
Acting Deputy Chief Financial Officer
Department of the Treasury

On November 15, 2000, we began a review of the Department of the Treasury's Inventory, Tracking and Closure (ITC) Audit Subsystem. One area specifically identified for review was the Office of Accounting and Internal Control's (AIC) development of a new ITC system. Our objective was to assess the justification used as the basis for pursuing a new tracking system.

This audit was initiated as part of the Office of Inspector General's Annual Audit Plan for Fiscal Year 2000. We conducted our work from November 29, 2000, to January 26, 2001, at the AIC office in Washington, D. C.. To assess AIC's basis of developing a new ITC system, we interviewed key management officials, reviewed guidance governing life cycle management and capital investments for information technology, and reviewed project related documents. Our audit work was performed in accordance with generally accepted government auditing standards.

Results in Brief

Our review found that AIC had not fully complied with information technology life cycle management and capital investment criteria in its pursuit of a new ITC system. We, therefore, recommended that

the Deputy Chief Financial Officer require AIC to formally document project approval, obtain a firm commitment of funds, and document a comprehensive plan before proceeding to the system design phase of the new ITC development project.

AIC's response outlined a set of corrective actions, which when fully implemented, will satisfy our recommendation. Specifically, AIC has already developed a business case, selected a project manager, and set aside funding for this project. AIC's response to our draft audit report is provided as Appendix 1.

Background

Despite making a huge investment in information technology (IT), many government operations have been hampered by inaccurate data and inadequate systems. Too often, Federal IT projects cost too much, produce too little, and fail to significantly improve mission performance. As a result, several management reforms, including revisions to the Paperwork Reduction Act, the Clinger-Cohen Act, and the Chief Financial Officers Act, have introduced requirements emphasizing the need for Federal agencies to significantly improve their management processes, including how they select and manage IT resources.

As a result of these legislative reforms, the Office of Management and Budget (OMB) issued its *Capital Programming Guide*. The guide states that agencies must have an effective process for making capital investment decisions that put funds in the right places. The guide defines a capital investment as land, structures, equipment, and intellectual property including software that are used by the Federal Government and have an estimated, useful life of two years or more. According to the guide, the cost of a capital asset is its full life-cycle costs, including all direct and indirect costs for planning, procurement, operations and maintenance, including service contracts, and disposal.

To ensure that the Department of the Treasury had a structured and disciplined approach to acquiring or developing IT products, the Department issued its revised *Information System Life Cycle (ISLC) Manual, TD P 84-01.* The Department also issued *Departmental Offices Investment Management Guidance,* which when used

appropriately, meet the IT investment requirements established by the General Accounting Office, OMB, and Treasury's Chief Information Officer and Deputy Chief Financial Officer.

Findings and Recommendations

Finding 1 Office of Accounting and Internal Control has not Followed Departmental Guidance

The Office of Accounting and Internal Control has not followed Departmental guidance in its approach to obtaining a new inventory, tracking, and closure system. Specifically, AIC has not complied with mandatory phase one and two requirements outlined in the Department's *ISLC Manual, TD P 84-01*. As a result, the risk associated with acquiring a new ITC system at an acceptable cost, within reasonable and expected time frames, and that contributes to tangible, observable improvements in mission performance could be increased.

We identified two reasons that AIC's project development actions were not in compliance with Departmental requirements. The first reason was that AIC management did not believe certain required actions were necessary at this stage of the project. The second reason was the urgency AIC management placed on establishing and implementing a new ITC system.

The Department's *ISLC Manual* establishes the principles by which the Department is to implement life cycle management. This manual applies to all information systems developed, maintained, enhanced, and disposed of by the Department. The manual also provides that a typical information system life cycle consists of eight phases: Project Concept Development, Planning, Requirements Definition, Design, Development, Test, Implementation, and Operations.

In April 2000, the Department issued additional guidance to users within Departmental Offices. This guidance, *Departmental Offices Investment Management Guidance*, provides Departmental Offices direction for capital investment management for information technology.

Both the Department's ISLC and capital investment guidance require life cycle management of IT projects to ensure a structured approach to information systems development and operations. ISLC further provides that an IT project begins when a need to develop or significantly change a system is identified. ISLC also provides that each system project must (1) have an accountable sponsoring organization, (2) have a single project manager, (3) have a comprehensive project plan, (4) undergo formal review and approval, and (5) not proceed until resource availability is assured.

The preceding five requirements generally occur during the first two phases (Project Concept Development and Planning) of an IT project life cycle. The third and fourth phases (Requirements Definition and Design) occur when user needs are developed and a detailed design of the system is prepared. The remaining four phases (Development, Test, Implementation, and Operations) occur when detail specifications are produced, functional requirements are validated, the system is made operational, and system performance is monitored.

To determine whether AIC was following Departmental guidance in its ITC system development project, we conducted interviews with key management officials, obtained project status information, and requested supporting documentation. Our review showed that AIC had:

- identified the need for a new or significantly enhanced tracking system. A phase one activity.

- contacted other agencies and bureaus to obtain information regarding their inventory, tracking, and closure system. A phase two activity.

- contacted several Treasury bureaus to begin the process of defining the requirements for a new system. A phase three activity.

- started the process of assessing information gathered to determine the best methodology to meet its need for a new ITC system. A phase three activity.

- initiated discussions with one bureau for the possible design and implementation of a new tracking system. A phase four activity.

Despite the aforementioned actions, AIC had not formally developed documentation to justify its development of a new ITC system, show the relative advantages of a new system, or explain the methods, tools, tasks, resource requirements, or project schedule listing significant project milestones.

In addition, when we questioned management about mandatory phase one and two requirements pertaining to project approval and funding, identifying a sponsoring organization, and assignment of a project manager, we discovered that these activities were not formally addressed or had not been performed. For instance, we were informed that neither a sponsoring organization nor a project manager had been identified, a comprehensive project plan had not been developed, review and formal approval to proceed with the project had not been obtained, nor had AIC received a firm commitment of funds necessary for the project to proceed. We were also informed by senior AIC management that they were moving with the utmost speed to develop, test, and implement a new system, which are phase five and six activities. According to AIC management, they hoped to accomplish phase five and six activities within a few months.

In summary, AIC had not met mandatory phase one and two requirements before it proceeded with phase three (Requirements Definition) activities. This could result in increased cost, longer timeframes for implementing the system, and a system that does not contribute to improvements in service performance.

Recommendation

1. The Deputy Chief Financial Officer should require the Office of Accounting and Internal Control to formally address and

document mandatory phase one and two requirements (e.g. obtain written project approval, obtain a firm commitment of funds, and develop a comprehensive plan) before performing any phase four activities.

Management Comment. The Acting Deputy Chief Financial Officer responded that, at the time of our audit, only very preliminary research had been conducted with regard to the ITCS Replacement Project. Thus, phase one and two activities had not been completed. Since that time, however, AIC initiated a project, developed a business case, selected a project manager, and set aside funding for the project.

OIG Evaluation. We consider this recommendation to be resolved. With regard to management's comments concerning the preliminary nature of AIC's ITCS project development efforts, we concluded, based on all information gathered during the audit and detailed in the text of our finding, that AIC's project development efforts exceeded the threshold of preliminary research.

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We appreciate the cooperation we received from the Office of Accounting and Internal Control during this audit. If you wish to discuss this report, you may contact me at (202) 927-5904. Major contributors to this report are listed in Appendix 2.

Thomas E. Byrnes
Director, Departmental Offices Audits

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

13 APR 2001

MEMORANDUM FOR THOMAS E. BYRNES
DIRECTOR, DEPARTMENTAL OFFICES AUDITS

FROM: James R. Lingebach
Acting Deputy Chief Financial Officer

SUBJECT: Draft Audit Report on the Office of Accounting and Internal Controls' Management of an Information Technology Project

Thank you for the opportunity to respond to your draft audit report on the Office of Accounting and Internal Controls' management of the Inventory, Tracking and Closure System (ITCS) Replacement Project. The Office of the Deputy Chief Financial Officer (DCFO) understands and takes very seriously the need to develop systems in accordance with a structured approach. During interviews conducted by Office of Inspector General (OIG) auditors, DCFO managers provided numerous explicit assurances that the Office of the DCFO would adhere to a rigorous, structured approach in replacing the ITCS. That approach was explained clearly to OIG auditors.

In managing the ITCS Replacement Project, the Office of the DCFO will adhere to the Department's Information System Life Cycle (ISLC) to an extent appropriate for the size and scope of this particular project. The ISLC Manual (chapter 3, section G, subsection (a), paragraph 2) states that "[a]ll tasks and products [described in the ISLC model] may not be appropriate or cost-effective for every project. The model must be tailored to address the specific requirements of individual projects." As required by the ISLC manual, the ITCS Replacement Project Plan will specify the tailored ISLC to which the project will adhere.

It is important to point out that at the time of this audit, the ITCS Replacement Project had not yet been formally initiated. DCFO staff had only been conducting very preliminary research of possible options. Therefore, it is not surprising that certain Phase 1 and Phase 2 activities specified in the Department's ISLC Manual had not been completed at the time of the audit. Since that time, however, a project has been initiated. We are making substantial progress in completing several activities specified in Phase 1 of the ISLC, as indicated below:

- An experienced information systems project manager has been selected and is now managing the project
- The ITCS Replacement Project Steering Committee—which includes representatives from the OIG, the Treasury Inspector General for Tax Administration, the Office of the DCFO, and the bureaus—has been officially convened
- The project team has been assembled and is developing preliminary requirements
- A Statement of Scope for the project has been developed and reviewed by the Steering Committee
- A business case has been developed and is being reviewed by the Steering Committee
- Funding for the project in FY 2001 has been set aside to support the project through the Departmental Offices Working Capital Fund
- A Steering Committee Charter has been developed and is being reviewed by the Committee

We do appreciate your suggestions for improving our system development process. We share the same goal of ensuring that systems developed by the Department are developed in a responsible manner that adheres to Departmental and Government-wide guidance and policy. If you need further information or clarification, please contact David Epstein at (202) 622-0452.

Thomas E. Byrnes, Director, Departmental Offices Audits
William S. Schroeder, Audit Manager
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The Department of the Treasury

Deputy Chief Financial Officer
Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control

Office of Management and Budget

OIG Budget Examiner