TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Telecommunication Projects Need Improved Contract Documentation and Management Oversight

March 5, 2007

Reference Number: 2007-20-030

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 5, 2007

MEMORANDUM FOR CHIEF INFORMATION OFFICER

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Telecommunication Projects Need Improved Contract Documentation and Management Oversight (Audit # 200620019)

This report presents the results of our review of the Internal Revenue Service's (IRS) use of the Department of the Treasury (Treasury) contract to procure telecommunication services. The overall objective of this review was to determine whether the IRS ensures telecommunication services acquired outside of the Treasury Communications System (TCS) contract are cost effective and do not duplicate services offered through the TCS contract. This review was part of the Treasury Inspector General for Tax Administration's Fiscal Year 2006 Information Systems Programs audit plan for reviews on the adequacy and security of IRS technology.

Impact on the Taxpayer

As a collector of United States citizens' tax obligations, it is imperative that the IRS effectively and efficiently manage its resources. Although one of the goals of the TCS program is to provide a cost-effective communications infrastructure, the IRS did not always document consideration of the TCS contract and provide effective oversight for major telecommunication investments. As a result, telecommunication projects may not have ensured the most efficient use of resources on behalf of taxpayers.

Synopsis

The TCS program was established to provide Treasury and its bureaus with a centralized network and management system to support its customers' missions by providing a wide range of data communications[1] services through a single contract vehicle. While Treasury does not

[1] See Appendix V for a Glossary of Terms.

mandate use of the TCS contract by departments and bureaus when acquiring services, IRS policies and procedures specify that the TCS contract be the first choice for data communications. To ensure the Federal Government receives the best value product, the Federal Acquisition Regulation[2] requires that program managers promote full and open competition among alternative sources for major system acquisitions and requires agencies to maintain effective documentation of contract actions, including cost proposals from contractors.

The TCS contract was not considered for the ERAP. As a result, the ERAP may not have been developed in the most cost-effective manner to ensure efficient use of resources.

As of September 28, 2006, the IRS had spent over $62 million during Fiscal Year 2006 on acquiring telecommunication data processing services outside of the TCS contract. Our review of these costs determined that only the Enterprise Remote Access Project (ERAP), which provides secure remote network access for IRS employees and contractors, would have warranted consideration of the TCS contract during the acquisition process. Although the TCS contract offers a solution to provide secure remote network access to employees, Project documentation did not show that it was one of the contracting vehicles considered for the ERAP. As a result, the acquisition may not have been completed in the most cost-effective manner to ensure efficient use of resources.[3]

In addition, Treasury requires preparation of a consolidated Capital Asset Plan and Business Case, commonly referred to as an Exhibit 300, for infrastructure-related information technology costs (e.g., telecommunications). In June 2006, Treasury also required a separate (internal) Exhibit 300 for any initiative that would otherwise qualify as a major investment to enable improved transparency for Treasury investments and enhance accountability. Individual initiatives for which the annual investment exceeds $5 million or the total life cycle cost exceeds $50 million are considered a major investment. The internal Exhibit 300s are not forwarded to the Office of Management and Budget as part of the Treasury's information technology Investment Portfolio.

The initial submission of internal Exhibit 300s was due to Treasury on October 15, 2006, even though the guidelines were not received until June 2006. Capital Planning and Investment Control (CPIC) organization personnel informed us that, while they prepared only three internal Exhibit 300s based on discussions with Treasury, they would begin to review all infrastructure projects in the development, modernization, and enhancement stage to determine whether additional internal Exhibit 300s are needed. As a result, the IRS followed the prior practice of

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[2] 48 C.F.R. ch. 1 (2005).
[3] After discussing the results of the audit with IRS management, we received management comments advising that the ERAP costs $6,000 less per year than the TCS solution. However, no supporting documentation was provided and we did not verify the information.

including all expenditures for telecommunication services on its information technology Investment Portfolio as a consolidated information technology infrastructure investment project and prepared a consolidated Telecommunications Infrastructure Exhibit 300. The Exhibit 300 defined the investment type as steady state (indicating the expenditures were for operations and maintenance) and reflected the total annual expenditure amount for telecommunications as maintenance cost.

The Enterprise Networks organization spent nearly $18.7 million during Fiscal Years 2004 through 2006 for the ERAP and has budgeted another $10.6 million in Fiscal Year 2007. Therefore, the Project may meet the IRS CPIC cost thresholds for a major information technology investment, and an internal Exhibit 300 may need to be prepared as part of the continuing CPIC organization review of infrastructure projects.

The classification of information technology investments has been reported previously as a problem for the IRS. For example, in response to a prior audit report,[4] the Chief Information Officer agreed to review all Applications Development organization projects to ensure they were properly classified as developmental or steady state and to assign the appropriate level of executive oversight. Similarly, due to the new guidance, the Enterprise Networks organization's infrastructure projects need to be reviewed to identify those projects that are under development and should be reclassified to ensure appropriate executive oversight and efficient use of resources.

Recommendations

The Chief Information Officer should ensure project documentation supports consideration of Treasury contracts during the procurement process when comparing alternative solutions for telecommunication services. In addition, all (steady state and development, modernization, and enhancement stage) information technology investments included in the Telecommunications Infrastructure Exhibit 300 should be analyzed to identify projects under development that should be classified as major information technology investments requiring increased executive oversight and preparation of internal Exhibit 300s.

Response

IRS management agreed with all of our recommendations. The Chief Information Officer will communicate to the Enterprise Networks organization the importance of following the enterprise life cycle project process. This will ensure documentation indicates consideration of Treasury contracts when comparing alternative solutions for telecommunication services. The CPIC

[4] *The Electronic Fraud Detection System Redesign Failure Resulted in Fraudulent Returns and Refunds Not Being Identified* (Reference Number 2006-20-108, dated August 9, 2006).

organization will provide training and guidance to Enterprise Networks organization project managers and executives to ensure compliance with existing Treasury guidance that requires infrastructure projects in the development, modernization, and enhancement phase of the life cycle to develop internal Exhibit 300s if they meet the criteria for a major project. In addition, the CPIC organization will review all projects in the Telecommunications Infrastructure Exhibit 300 to ensure proper classification. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

Table of Contents

Abbreviations

CPIC	Capital Planning and Investment Control
ERAP	Enterprise Remote Access Project
FY	Fiscal Year
IRS	Internal Revenue Service
LMSB	Large and Mid-Size Business
OMB	Office of Management and Budget
TCS	Treasury Communications System
TIAS	Treasury Internet Access Solution
VPN	Virtual Private Network

Background

The Modernization and Information Technology Services organization is responsible for delivering information technology services and solutions that support effective tax administration. Within the Modernization and Information Technology Services organization, the Enterprise Networks organization is responsible for providing all forms of telecommunication services (e.g., voice, data, video, wireless) in the most efficient and effective manner and managing the design and engineering of the telecommunication environment.

The Treasury Communications System (TCS) program was established to provide the Department of the Treasury (Treasury) and its bureaus with a centralized network and management system by providing a wide range of data communications[1] services through a single contract vehicle. Services provided through the TCS contractor include Internet access, network security, and network operations and maintenance. The TCS program is funded through the Treasury Working Capital Fund, which is used for programs that can provide common administrative services that benefit multiple bureaus. The goals of such programs are to reduce overhead costs, create economies of scale, and avoid duplication of services.

Services from the TCS program are obtained by agencies through the TCS contract that was awarded in September 1995 to TRW.[2] The contract is a 10-year Indefinite Delivery/Indefinite Quantity contract with terms that allow for a 6-month extension. This type of contract establishes the price of supplies and services at the onset of the contract. The TCS contract expired in September 2005, but it has been extended until September 2007 due to delays in awarding the new telecommunication services contract.

On May 4, 2004, Treasury issued a request for proposals to replace the TCS contract. The new telecommunication services procurement, the Treasury Communications Enterprise, is estimated to be worth potentially $1 billion over its expected 10-year life. However, awarding of the Treasury Communications Enterprise contract has been pushed back to 2007.[3]

This review was performed at the Internal Revenue Service (IRS) Enterprise Networks organization office in New Carrollton, Maryland, and the Procurement office in Oxon Hill, Maryland, during the period June through November 2006. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit

[1] See Appendix V for a Glossary of Terms.
[2] On August 4, 1996, Northrop Grumman Missions Systems, formerly TRW, assumed full control of managing operations of the nationwide, integrated network for the Department of the Treasury's bureaus and offices.
[3] On December 21, 2006, the Department of the Treasury announced that it was canceling its request for proposals for the Treasury Communications Enterprise contract, stating it will use the General Services Administration's upcoming Federal Governmentwide telecommunication contract vehicle instead.

objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Project Documentation Did Not Show the Treasury Communications System Contract Was Considered As an Acquisition Vehicle for Development of the Enterprise Remote Access Project

While Treasury does not mandate use of the TCS contract by departments and bureaus when acquiring data communications services, IRS policies and procedures specify that the TCS contract should be considered first. To ensure the Federal Government receives the best value product, the Federal Acquisition Regulation[4] requires full and open competition among alternative sources for major system acquisitions. The Federal Acquisition Regulation also requires agencies to maintain documentation of contract actions including the Federal Government estimate of contract price and cost proposals from contractors.

For Fiscal Year (FY) 2006, the IRS budgeted $263 million for telecommunication services. Figure 1 shows the IRS had spent $260 million on telecommunication services as of September 28, 2006; the Enterprise Networks organization spent $221.5 million of this total.

Figure 1: FY 2006 Expenditure Amounts for Telecommunication Services

Organization/Program	Amount	Percentage
Enterprise Networks	$221,537,718	85%
Web Services	$31,621,752	12%
Enterprise Services	$3,324,829	1%
Security Services	$2,662,861	1%
Unit General Management and Administration	$510,000	Less than 1%
Criminal Investigation	$146,725	Less than 1%
Tier B (Small to Medium Investment Projects)	$130,442	Less than 1%
Other Organizations with Amounts < $100,000	$82,806	Less than 1%
Total	**$260,017,133**	**99%***

*Source: Associate Chief Information Officer, Management. * = Column does not add to 100 percent due to rounding.*

Twenty-six percent[5] of the expenditures were for data communications services under the TCS contract. Specifically, the IRS incurred approximately $67 million in TCS costs in FY 2006.

[4] 48 C.F.R. ch. 1 (2005).

[5] $66,660,988 divided by $260,017,133.

The remaining $193 million was spent mostly on other telecommunication services not associated with data communications (e.g., mobile telephones, local and long distance telephone services, toll-free telephone services); however, over $62 million was spent on acquiring telecommunication data processing services outside of the TCS contract. Our analysis of these expenditures determined that only the costs associated with the Enterprise Remote Access Project (ERAP) were for data communications services that would have warranted consideration of the TCS contract during the acquisition process. However, the Project documentation did not show the TCS contract was considered as an acquisition vehicle for development of the ERAP. Appendix IV provides an explanation for the telecommunication data processing services expenditures that did not warrant consideration of the TCS contract.

The TCS contract was not considered for the ERAP. As a result, the ERAP may not have been developed in the most cost-effective manner to ensure efficient use of resources.

The justification for developing the ERAP was to provide a cost-effective Virtual Private Network (VPN) solution for all IRS personnel working at home under flexi-place (i.e., telecommuting) or requiring remote access while in travel status because the IRS' two current VPN solutions were limited. For example, the IRS' Secure Dial-In solution, which provided IRS employees with an encrypted connection from remote computers to the IRS network via dial-up modem connectivity, was subject to the limitation of dial-up modem technology and was not designed to access and download email messages with large files. While the IRS Large and Mid-Size Business (LMSB) Division VPN solution did provide broadband connectivity and secure remote site access, the ERAP Business Case indicated that to properly scale the LMSB Division VPN solution to meet the needs of the entire IRS was cost prohibitive. Neither of the IRS' current VPN solutions (Secure Dial-In and LMSB Division VPN) were acquired under the TCS contract. Figure 2 shows a comparison of the three VPN solutions.

Figure 2: Comparison of VPN Solutions

Solution	Key Features
Secure Dial-In	Modem-based VPN solution owned and managed by the IRS.
LMSB Division VPN	Internet-based VPN solution capable of providing broadband connectivity and secure, fixed-site access (e.g., at the taxpayer's location) partially managed by the IRS.
ERAP	Internet-based VPN solution capable of providing broadband connectivity and secure, fixed-site access fully managed by a contractor.

Source: ERAP Business Case.

Although the TCS contract offers a VPN-managed service that uses the assets of the Treasury Internet Access Solution (TIAS) to provide secure remote network access to employees, Project documentation did not show that it was one of the contracting vehicles considered for the ERAP.

According to IRS Procurement office officials, three vendors were selected from the General Services Administration schedule for a detailed technological evaluation, which included evaluating cost, software, and scalability. A Blanket Purchase Agreement was then issued to the vendor that provided the best value product for the customer. According to the ERAP Business Case, this acquisition strategy was selected because the use of an existing Federal Government contracting vehicle would shorten procurement cycles by simplifying the procurement process. Although reasons were not documented in the ERAP Project file, both IRS Procurement office and Enterprise Networks organization personnel offered four reasons why the TCS contract was not considered for the ERAP. Figure 3 shows the reasons provided by the IRS and our comment for each reason.

Figure 3: Reasons Why the TCS Was Not Considered for the ERAP

IRS Reason	Treasury Inspector General for Tax Administration Comment
The TCS contract was scheduled to expire in September 2005.	While the TCS contract was to expire in September 2005, the TCS contract was extended until September 2007, and the anticipated Treasury Communications Enterprise contract was to require that the vendor ensure no disruption of current services.
The TCS TIAS solution did not meet established security requirements for the VPN solution.	Although management provided documentation showing the TCS contract was considered when comparing alternative solutions in FY 2001 for development of the LMSB Division VPN and that security issues were identified, we were unable to locate any Project documentation for the ERAP development effort in FY 2004 indicating the TCS TIAS solution was considered and that it would not meet identified security requirements.
The TCS TIAS solution would be too expensive because of the overhead costs associated with services provided under the TCS contract.	Both IRS Procurement office and Enterprise Networks organization personnel were unable to provide any cost estimates to support management's position that the TCS TIAS solution would be too expensive.
The TCS TIAS solution could not meet the customer's requirement that the VPN solution support a dial-up capability.	We were unable to locate any Project documentation to support management's position that the TCS TIAS solution was excluded from consideration because it would not support a dial-up capability.

Source: IRS Procurement office and Enterprise Networks organization personnel and Treasury Inspector General for Tax Administration analysis.

Insufficient Project documentation occurred because Modernization and Information Technology Services management did not ensure documentation was maintained as required by the Federal Acquisition Regulation to support that the acquisition team considered the TCS contract during the procurement process when comparing alternative solutions for telecommunication services. In fact, our discussions with management and staff from the Enterprise Networks organization and ERAP Project office indicated the former Director, Enterprise Networks, compared the costs of remote access solutions and found that services acquired under the TCS contract would be substantially more expensive. However, by not adequately documenting consideration of the TCS contract as one of the alternative solutions, the IRS may not have developed the ERAP in the most cost-effective manner to ensure efficient use of resources.[6]

Recommendation

Recommendation 1: The Chief Information Officer should ensure project documentation supports consideration of Treasury contracts during the procurement process when comparing alternative solutions for telecommunication services.

> ***Management's Response:*** IRS management agreed with this recommendation. The Chief Information Officer will communicate to the Enterprise Networks organization the importance of following the enterprise life cycle project process. This will ensure documentation indicates consideration of Treasury contracts when comparing alternative solutions for telecommunication services.

Telecommunication Projects Were Considered Infrastructure Projects and Not Classified As Major Information Technology Investments

The Clinger-Cohen Act of 1996 (Federal Acquisition Reform Act of 1996) (Information Technology Management Reform Act of 1996)[7] requires agencies to use a disciplined Capital Planning and Investment Control (CPIC) process to acquire, use, maintain, and dispose of information technology assets. In addition, Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget*, requires each agency to include an information technology Investment Portfolio, commonly called Exhibit 53, with its annual budget submission to the OMB containing the information technology investment title, description, amount, and funding source. The required information allows the OMB to review and evaluate each agency's information technology spending and to compare information technology spending across the Federal Government.

[6] After discussing the results of the audit with management, we received management comments advising that the ERAP costs $6,000 less per year than the TCS-managed VPN solution. However, no supporting documentation was provided and we did not verify the information.
[7] Pub. L. No. 104-106, 110 Stat. 642 (codified in scattered sections of 5 U.S.C., 5 U.S.C. app., 10 U.S.C., 15 U.S.C., 16 U.S.C., 18 U.S.C., 22 U.S.C., 28 U.S.C., 29 U.S.C., 31 U.S.C., 38 U.S.C., 40 U.S.C., 41 U.S.C., 42 U.S.C., 44 U.S.C., 49 U.S.C., 50 U.S.C.).

For the Exhibit 53, the agency should classify each information technology investment as either major or nonmajor. The OMB defines a major information technology investment as one that requires special management attention because of certain attributes, including the importance to an agency's mission; external visibility; and high development, operating, or maintenance cost. Major information technology investments require a more stringent CPIC process, including increased executive oversight and preparation of a detailed Capital Asset Plan and Business Case, commonly called Exhibit 300. Treasury guidelines require preparation of one consolidated Exhibit 300 for all infrastructure costs (i.e., telecommunications).

In June 2006, new Treasury guidelines were issued requiring separate (internal) Exhibit 300s for each project that would otherwise qualify as a major investment, to enable improved transparency for Treasury investments and enhance accountability. According to Treasury, this would include individual initiatives for which the annual investment exceeds $5 million or the total life cycle cost exceeds $50 million. The internal Exhibit 300s are not forwarded to the OMB as part of Treasury's information technology Investment Portfolio.

The initial submission of internal Exhibit 300s was due to Treasury on October 15, 2006, even though the guidelines were not received until June 2006. CPIC organization personnel informed us that, while they prepared only three internal Exhibit 300s based on discussions with Treasury, they would begin to review all infrastructure projects in the development, modernization, and enhancement stage to determine whether additional internal Exhibit 300s are needed. As a result, the IRS followed the prior practice of including all expenditures for telecommunication services on its Exhibit 53 as a consolidated information technology infrastructure investment project and prepared a consolidated Telecommunications Infrastructure Exhibit 300. The Exhibit 300 defined the investment type as steady state (indicating the expenditures were for operations and maintenance) and reflected the total annual expenditure amount for telecommunications as maintenance cost.

Figure 4 illustrates the Enterprise Networks organization spent nearly $18.7 million during FYs 2004 through 2006 for the ERAP and has budgeted another $10.6 million in FY 2007. Therefore, the Project may meet the IRS CPIC cost thresholds for a major information technology investment, and an internal Exhibit 300 may need to be prepared as part of the continuing CPIC organization review of infrastructure projects.

Figure 4: ERAP Expenditures Between FYs 2004 and 2007

Fiscal Year	Annual Amount	Cumulative Amount
2004	$690,402	$690,402
2005	$11,671,843	$12,362,245
2006	$6,306,563	$18,668,808
2007[8]	$10,634,987	

Source: Associate Chief Information Officer, Management, and the ERAP Project Office.

The consolidated Telecommunications Infrastructure Exhibit 300, which contained nearly $284 million in steady state investments, may include other projects that qualify as major investments requiring internal Exhibit 300s. For example, the Common Premise Capability Project,[9] which according to the Project Manager had expenditures totaling between $25 million and $27 million in FY 2005, is another telecommunication investment Project that could require classifying expenditures as development and/or enhancement costs and preparation of an internal Exhibit 300.

The classification of information technology investments has been reported previously as a problem for the IRS. For example, in response to a prior audit report,[10] the Chief Information Officer agreed to review all Applications Development organization projects to ensure they were properly classified as developmental or steady state and to assign the appropriate level of executive oversight. Similarly, due to the new guidance, the Enterprise Networks organization's infrastructure projects need to be reviewed to identify those projects that are under development and should be reclassified to ensure appropriate executive oversight and efficient use of resources.

Recommendation

Recommendation 2: The Chief Information Officer should analyze all (steady state and development, modernization, and enhancement stage) information technology investments included in the Telecommunications Infrastructure Exhibit 300 to identify projects under development that should be classified as major information technology investments requiring increased executive oversight and preparation of internal Exhibit 300s.

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[8] The FY 2007 amount represents the amount budgeted for the ERAP.

[9] The Common Premise Capability Project is intended to upgrade telephone system equipment to Internet protocol technology to improve performance, security, and data connectivity.

[10] *The Electronic Fraud Detection System Redesign Failure Resulted in Fraudulent Returns and Refunds Not Being Identified* (Reference Number 2006-20-108, dated August 9, 2006).

Management's Response: IRS management agreed with this recommendation. The CPIC organization will provide training and guidance to Enterprise Networks organization project managers and executives to ensure compliance with existing Treasury guidance that requires infrastructure projects in the development, modernization, and enhancement phase of the life cycle to develop internal Exhibit 300s if they meet the criteria for a major project. In addition, the CPIC organization will review all projects in the Telecommunications Infrastructure Exhibit 300 to ensure proper classification.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS ensures telecommunication services acquired outside of the TCS contract are cost effective and do not duplicate services offered through the TCS contract. To accomplish this objective, we:

I. Determined the amounts budgeted and expended by the IRS for telecommunication services for FYs 2005 through 2007.

A. Obtained a download from the IRS Integrated Financial System[1] identifying total expenditures for telecommunication services in FYs 2005 and 2006 for each telecommunication project and the amounts budgeted for FY 2007. We relied on the Government Accountability Office's assessment of the reliability of the computer-processed data from the Integrated Financial System. During a review of the IRS' financial statements,[2] the Government Accountability Office concluded the expense and reimbursable revenue information processed through the System for FYs 2005 and 2006 was reliable in all material respects.

B. Met with Enterprise Networks organization management and staff to discuss FY 2005 TCS expenditure amounts and the budgeted amounts for FY 2006.

C. Reviewed the IRS Main Account (TCS Program Financial Plan) to identify Bureau-Specific Costs and Shared Costs for FYs 2005 through 2007.

D. Reviewed correspondence between the IRS and Treasury regarding the IRS' financial plan amounts for FYs 2005 through 2007, including concessions made by Treasury and the resulting adjustments to the IRS Working Capital Fund Program requirements.

E. Identified the TCS contract actual expenditure amounts by category for FYs 2005 and 2006 and estimated expenditure amounts by category for FY 2007.

II. Evaluated controls over telecommunication services acquired outside of the TCS contract.

A. Reviewed TCS program policies and procedures for acquiring telecommunication services, including any fees for add-on services and bundled services and the approval process for acquisitions. In addition, we reviewed the Internal Revenue

[1] See Appendix V for a Glossary of Terms.

[2] *Financial Audit: IRS's Fiscal Years 2006 and 2005 Financial Statements* (GAO-07-136, dated November 2006).

Manual and other directives governing the acquisition process for telecommunication services both within and outside of the TCS program.

B. Met with TCS Program Management Office and Enterprise Networks organization management and staff to identify the services available in the TCS contract, procedures for acquiring telecommunication services outside the TCS contract, and efforts to ensure IRS telecommunication projects do not duplicate service available through the TCS contract.

C. Obtained from the Enterprise Networks organization a list of all telecommunication projects acquiring services outside of the TCS contract and met with other organizational functions with expenditures for telecommunication services to identify projects that warranted consideration of the TCS contract.

D. For the telecommunication projects identified in Step II.C. that warranted consideration of the TCS contract, determined whether a business justification was completed supporting the acquisition, a cost-benefit analysis was completed comparing alternative solutions to services available under the TCS contract and the telecommunication services solution selected was both the most feasible and cost-effective, services acquired duplicate any of the shared (bundled) services currently offered under the TCS contract, and associated costs for services were identified.

Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs)
Gary Hinkle, Director
Danny Verneuille, Audit Manager
Phung-Son Nguyen, Senior Auditor
Van Warmke, Senior Auditor
Olivia DeBerry, Auditor

Appendix III

Report Distribution List

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Appendix IV

Analysis of Telecommunication Data Processing Services Expenditures Not Warranting Consideration of the Treasury Communications System Contract

Title	Description
Web Services	This project involves maintenance for the three IRS portals (IRS.gov, Employee User Portal, and Registered User Portal) that were originally developed as part of the Business Systems Modernization program and were moved to the current processing environment for production. The project was excluded from further analysis because the IRS has extended the maintenance contracts only to allow time to migrate the projects to using commercial off-the-shelf software. In FY 2006, $25.5 million had been expended on the project through July 23, 2006.
Unit General Management and Administration	These are expenditures by the Modernization and Information Technology Services organization that are not associated with a specific telecommunication services project or Associate Chief Information Officer area. For example, the $1.8 million expended in FY 2005 was the IRS' share of the attorney fees associated with the award and protest of the new Treasury Communications Enterprise contract. The FY 2006 expenditures totaling $510,000 paid to a contractor were on an existing contract for support and maintenance of the current production systems within a web-based environment.
Enterprise Services	These are expenditures for contractor services for FY 2006 totaling $3.3 million. The expenditures were excluded from further analysis because they represent contractor support for general project planning, Enterprise Life Cycle documentation, engineering, security, etc.
Common Communications Gateway	This project, which was budgeted to receive only $50,000 in FY 2006, was excluded because it is an internal activity monitoring and intrusion detection system developed to consolidate and standardize design requirements for all external interfaces to the IRS network.
Common Premise Capability	This project is the IRS' voice over Internet protocol solution. The project was excluded from further analysis because the current project activities involve replacement of voice telecommunication equipment that was aligned under the infrastructure roadmap initiative and paid with FY 2005 funds that had to be spent by September 2006. The project was not funded in FY 2006.

Appendix V

Glossary of Terms

Capital Asset Plan and Business Case	Required by OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, dated June 2005, and commonly called Exhibit 300. Each agency must submit an Exhibit 300 twice each year for each major information technology investment.
Capital Planning and Investment Control	A management process for the ongoing identification, selection, control, and evaluation of investments in information resources focused on agency missions and achieving specific program outcomes.
Data Communications	The electronic transmission of information that has been encoded digitally for storage and processing by computers.
Development, Modernization, and Enhancement Investments	Costs for the development, modernization, and enhancement investments include costs for new investments and changes or modifications to existing systems to improve capability or performance.
Indefinite Delivery/Indefinite Quantity Contracts	Contracts allowing the Federal Government to acquire an indefinite quantity, within stated limits, of supplies or services during a fixed period with deliveries or performance to be scheduled by placing orders with the contractor.
Information Technology Investment Portfolio	Required by OMB Circular A-11 and commonly called Exhibit 53. This portfolio must be submitted with each agency's annual budget submission and contain the information technology investment title, description, amount, and funding source.

Integrated Financial System	An administrative accounting system used by the IRS.
Steady State Investments	Costs for routine maintenance and operational costs at current capability and performance level including costs for personnel, maintenance of existing information systems, corrective software maintenance, voice and data communications maintenance, and replacement of broken equipment.
Telecommunication Data Processing Services	Represents services contracted from non-Federal Government sources in support of telecommunication programs.
Virtual Private Network	A data transport mechanism deployed on a public or shared communications infrastructure, like the Internet, that simulates a private network through use of privacy-enhancing technology (e.g., encryption).

Appendix VI

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

CHIEF INFORMATION OFFICER

RECEIVED
FEB 12 2007

February 9, 2007

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard A. Spires
Chief Information Officer

SUBJECT: Draft Audit Report – Telecommunication Projects Need Improved Contract Documentation and Management Oversight (Audit #200620019) (Itrac #2007-20186)

Thank you for the opportunity to review the subject draft audit report. We appreciate the meetings between the Director of the Capital Planning and Investment Control (CPIC), the Internal Revenue Service's (IRS) Enterprise Networks organization, and the audit team to clarify observations prior to issuing the draft report. We recognize the need to continue improving the documentation in our project files to demonstrate our decision-making process. We are committed to ensuring our customers receive the best product and value by considering all of the resources at our disposal as delineated in the Federal Acquisition Regulations.[1]

The CPIC organization strives to improve the quality of service it provides to management in classifying projects in the IRS Information Technology (IT) investment portfolio. Following the Department of Treasury's guidance issued in June 2006, the CPIC office applied the appropriate guidelines related to Exhibit 300s for the Telecommunications Infrastructure.

We appreciate the opportunity to address these issues and the audit team's advice on ways to further improve our documentation and classification of IT investments. We agree with the two recommendations reflected in the report and have included our corrective actions in the attachment.

Thank you for your continued support and the valuable assistance and guidance that your team provides. We look forward to working with your staff throughout the year to develop appropriate measures. If you have any questions, please contact me at (202) 622-6800. Members of your staff may also contact Judy Mills, Director of Program Oversight Coordination, at (202) 283-4915.

Attachment

[1] 48 C.F.R. ch.1 (2005)

Attachment

Draft Audit Report – Telecommunication Projects Need Improved Contract Documentation and Management Oversight (Audit # 200620019)

RECOMMENDATION #1: The Chief Information Officer should ensure project documentation supports consideration of the Department of the Treasury contracts during the procurement process when comparing alternative solutions for telecommunication services.

CORRECTIVE ACTION #1: We agree with this recommendation. The Chief Information Officer will communicate to the Enterprise Networks (EN) organization the importance of following the enterprise life cycle project process. This will ensure that documentation indicates consideration of Department of the Treasury contracts when comparing alternative solutions for telecommunications services.

IMPLEMENTATION DATE: April 1, 2007

RESPONSIBLE OFFICIAL: Chief Information Officer

CORRECTIVE ACTION MONITORING PLAN: We enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.

RECOMMENDATION #2: The Chief Information Officer should analyze all (steady state and development, modernization, and enhancement stage) information technology investments included in the Telecommunications Infrastructure Exhibit 300 to identify projects under development that should be classified as major information technology investments requiring increased executive oversight and the preparation of internal Exhibit 300s.

CORRECTIVE ACTION #2: We agree with this recommendation. The CPIC organization will provide training and guidance to EN Project Managers and Executives to ensure compliance with existing Treasury Department Infrastructure Exhibit 300 guidance. This guidance requires infrastructure projects in the Development/ Modernization/Enhancement (DME) phase of the life cycle to develop internal Exhibit 300s if they meet the criteria for a major project. In addition, the CPIC organization will review all projects in the Telecommunications Infrastructure Exhibit 300 to ensure proper classification.

IMPLEMENTATION DATE: September 1, 2007

RESPONSIBLE OFFICIAL: Associate Chief Information Officer, Management

CORRECTIVE ACTION MONITORING PLAN: The corrective actions will be completed as follows:

- EN Project Manager and Executive training by June 1, 2007
- Distribution of guidance materials to EN by August 1, 2007
- Evaluation of all projects by September 1, 2007