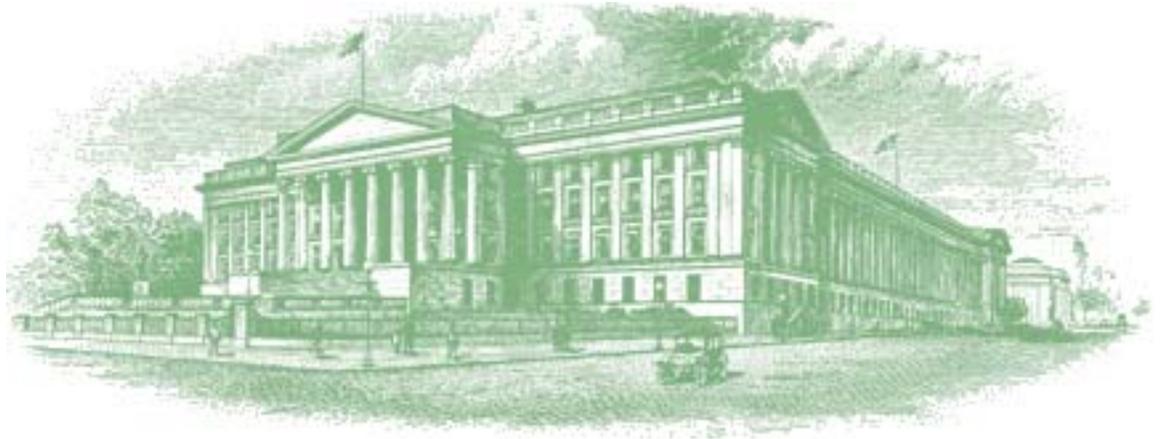




Audit Report



OIG-11-106

INFORMATION TECHNOLOGY: Treasury's Contract and Project Management of Treasury Network (TNet) Was Poor

September 22, 2011

Office of
Inspector General

DEPARTMENT OF THE TREASURY

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Abbreviations

ATO	authority to operate
C&A	certification and accreditation
CIO	chief information officer
FIPS	Federal Information Processing Standards
GLS	General Legal Services
GSA	General Services Administration
IRS	Internal Revenue Service
OIG	Treasury Office of Inspector General
OMB	Office of Management and Budget
PMO	Program Management Office
TCE	Treasury Communications Enterprise
TCS	Treasury Communications Systems
TNet	Treasury Network
TIC	Trusted Internet Connections

*The Department of the Treasury
Office of Inspector General*

September 22, 2011

Robyn East
Deputy Assistant Secretary for Information Systems
and Chief Information Officer
Department of the Treasury

We are performing a series of audits to determine if the Department of the Treasury's implementation of the Treasury Network (TNet)¹ was based on sound and effective contract management, project management, security management, and transition management. This report provides the results of our assessment of Treasury's TNet contract and project management. We will report on the remaining objectives in future audit reports.

To accomplish our objectives, we reviewed and analyzed documents related to contract administration and project management of the TNet task order. We also interviewed Treasury personnel responsible for the contract and project management of TNet, and representatives of the TNet contractor, AT&T. We performed our fieldwork in Washington, DC, from March 2009 through April 2011. Our objectives, scope, and methodology are described in appendix 1.

Results in Brief

Based on the results of our work, we concluded that Treasury's contract and project management of TNet was poor. Specifically, the TNet statement of work that was included in the task order did not protect the government's interest to obtain a timely enterprise network at the least possible cost. Critical system security requirements and key delivery dates were omitted from the task order rendering Treasury unable to pursue reasonable remedies or terminate the contract for default. Furthermore, even after delivery

¹ TNet is a wide area network that provides Treasury with e-mail, Internet, and voice traffic applications. The TNet task order was awarded under the General Services Administration Network universal contract (Contract Number GS00T07NSD0007).

dates were subsequently incorporated in task order modifications, Treasury officials still did not pursue available remedies to enforce the terms and conditions of the task order, essentially assuming responsibility for late delivery. Ultimately, the lack of effective leadership resulted in a poorly written, poorly planned, and poorly executed task order. Finally, we believe that inadequate contractor performance resulted in additional costs of \$33 million to Treasury.²

The TNet task order was awarded to AT&T on September 21, 2007. According to the initial TNet Transition Plan incorporated in AT&T's response to Treasury's request for quote, implementation of TNet was supposed to begin in October 2007 and be completed in 9 months. However, due to a combination of AT&T and government delays, implementation did not begin until August 2009, nearly 2 years later.

One of the reasons for the delay was AT&T's submission of an insufficient certification and accreditation (C&A)³ package that was rejected by Treasury and had to be resubmitted after additional testing. Another delay was due to the Office of Management and Budget (OMB) Trusted Internet Connections (TIC) initiative⁴, which was promulgated after the date the task order was awarded, and required additional features. Due to delays in transitioning to TNet, OMB included TNet on its list of 26 high risk projects in 2010.⁵ Due to several security risks that needed to be remediated, TNet

² Based on the data the Office of Chief Information Officer provided to us on December 24, 2009, the expected monthly savings for transitioning from TCS to TNet was \$3.7 million. We multiplied the monthly savings of \$3.7 million by 9 months (October 2008 through July 2009) to determine the additional costs.

³ The C&A package is a comprehensive assessment of the management, operational, and technical security controls for a system. This information is used by officials to determine whether to authorize operation of an information system.

⁴ The TIC initiative was mandated in OMB memorandum, M-08-05, issued in November 2007. The overall purpose of the initiative was to optimize and standardize individual external network connections, to include connections to the Internet, currently in use by the federal government. By reducing the number of access points, the government could more easily monitor and identify potentially malicious traffic.

⁵ High risk projects as defined in OMB Circular A-11, Part 2, Section 53: Information Technology and E-Government (June 2008), include those projects requiring special attention from oversight authorities and the highest levels of agency management.

was operated under an interim authority to operate (ATO)⁶ for over a year and a half, and finally received a full ATO on March 23, 2011.

The reasons provided by Treasury officials for the deficiencies we identified during our audit are detailed in the finding below; however, we want to highlight a common theme that came out of our discussions with those officials that gave us great concern. Specifically, in the beginning, Treasury senior officials told us on several occasions of the urgency to transition from Treasury Communications Systems (TCS) to TNet. However, once the task order was issued, Treasury officials were reluctant to take action against the contractor for failure to meet the transition schedule. It became more important to the responsible officials to keep the contractor in place, regardless of the costs or consequences to the government, than to take the proper steps to either obtain satisfactory performance from the contractor or to terminate the contract. As a consequence, we believe that not all aspects of this procurement were executed properly and that unacceptable shortcuts in the contracting process were taken. Obviously, the lessons of the Treasury Communications Enterprise (TCE) procurement failure were ignored.⁷

We are making five recommendations to the Treasury Chief Information Officer (CIO) to improve the contract and project management of TNet and future information technology acquisitions.

Management Response

In a written response, the Treasury CIO agreed with our recommendations and provided plans for corrective actions (see appendix 2). The response also stated that in pursuit of Treasury's

⁶ ATO is the official management decision given by a senior organizational official to authorize operation of an information system and to explicitly accept the risk associated with the system's operation. ATO can only be granted after the authorizing official has assessed the results of the C&A package and deemed that the risk to agency operations, agency assets, or individuals is acceptable.

⁷ Audit Report OIG-06-028, Major Acquisitions: Treasury Communications Enterprise Procurement Was Poorly Planned, Executed and Documented (February 2006), noted that poor planning and execution by Treasury officials delayed the TCE contract and increased its costs.

goal of continually strengthening the management and oversight of all information technology projects, TNet's management oversight activities were placed under the Treasury Office of the CIO as of September 29, 2010.

With respect to determining whether damages resulting from contractor delay from October 2008 through July 2009 are legally available, the response stated that based on an opinion from the Internal Revenue Service (IRS) General Legal Services (GLS), it is Treasury's position that the government does not have a legal basis to recover damages from AT&T for contractor delays.

With regard to implementing appropriate policies, procedures, and controls to ensure that all prospective statements of work, contracts or task orders, for acquisition of information systems clearly state the appropriate Federal Information Processing Standards (FIPS) 199 security category and specify the delivery date of an acceptable C&A package, the response stated that such guidance would be implemented.

Management's response also included assurances that any future timing modifications to the TNet task order will be specified and damages resulting from future contractor-caused delay(s) will be pursued.

OIG Comment

The Treasury CIO's planned corrective actions are responsive to our recommendations. While we understand that through consultation between the TNet contracting officer and IRS GLS, it was IRS GLS's opinion that Treasury's actions precluded it from seeking legal remedies for contractor caused delays in the TNet task order, we believe there may be some merit in reevaluating this position.

Treasury's management response also commented on several other matters in our report. Our clarifications to the comments that Treasury made in its management response to the draft report are included in appendix 3.

Background

TCS was Treasury's telecommunications infrastructure that integrated the Federal Telecommunications System 2000⁸ and network-based services. TCS enabled a wide range of applications through independent networks to support Treasury's mission. The TCS contract was awarded on September 28, 1995, and was due to expire on September 27, 2005, but out of necessity due to TNet delays, was extended to September 27, 2010.

On May 4, 2004, Treasury issued a request for proposal for a TCS replacement contract, TCE, to supply telecommunications services to Treasury, including its bureaus and offices. It was envisioned that TCE would enable the convergence of data, voice, and video technologies into a single network infrastructure that supported the operation of applications and services across the entire operating environment through enterprise-wide managed services. Under TCS, telecommunications equipment was contractor-maintained but Treasury-owned. Under TCE, the contractor was to take title to existing TCS network assets and use any equipment it considered useful in providing network connectivity and management services, and dispose of the remaining equipment.

On December 3, 2004, Treasury awarded the TCE contract to AT&T. The procurement was protested by five unsuccessful bidders and on March 16, 2005, the Government Accountability Office issued a decision in favor of the protestors. Following a comprehensive review in conjunction with the General Services Administration (GSA) and OMB, Treasury reopened the TCE procurement on August 15, 2005. The reopened procurement included a series of solicitation amendments and four rounds of discussions with the bidders, for a total of five rounds of proposal submissions and evaluations.

⁸ Federal Telecommunications System 2000 is the federal government's long-distance telecommunications program administered by the GSA. It is a private network that provides voice, data, and video services to federal employees across the country. Treasury used Federal Telecommunications System 2000 for all nonlocal voice services and for services mandated by Federal Information Resources Management regulations.

In a memorandum of agreement with GSA, dated December 20, 2006, Treasury agreed to procure wide area network services under GSA's Networx universal contract. The procurement was called TNet. On December 21, 2006, Treasury cancelled the TCE procurement.

On September 21, 2007, Treasury awarded the TNet task order to AT&T. The cost for TNet was initially estimated at \$270 million. The contract cost is now estimated at \$391 million. Based on AT&T's proposal, implementation of TNet was to have started in October 2007. However, implementation under an interim ATO did not start until August 2009. Furthermore, TNet did not receive a full ATO until March 23, 2011, over a year and a half later, due to a number of security risks that needed to be remediated.

The Treasury CIO, as the authorizing official for TNet, has the responsibility and accountability for operating TNet at an acceptable level of risk to Treasury operations, assets, and individuals. As such, the CIO is responsible for approving the security requirements for TNet.

The responsibility for managing and administering the TNet task order was delegated to the IRS Procurement Office. Accordingly, TNet's contracting officer was appointed from that office. Program oversight of the TNet contractor's operations is performed by the IRS Program Management Office (PMO). That office also serves as an interface between Treasury and AT&T to monitor service level agreements and manage invoices. Accordingly, TNet's contracting officer's technical representative works out of the IRS PMO. He is responsible for, among other things, maintaining the complete contract working files, although he relied on other staff within the IRS PMO to fulfill this responsibility.

Treasury bureaus provided input through the CIO Council, sub-councils, and working groups, and served as control points for approvals and strategic direction setting for TNet.

Finding and Recommendations

Finding **Treasury's Contract and Project Management of TNet Was Poor**

From the onset, exacerbated by a poorly written statement of work, the TNet transition was plagued with contractor- and government-caused delays. Among the major reasons for delay was that the first C&A package for TNet that AT&T delivered on December 11, 2008, failed to meet Treasury's requirements. Additional delays resulted because the statement of work lacked specific critical system security requirements and did not articulate due dates for key contract deliverables, like the C&A package. Furthermore, when delays occurred, Treasury issued task order modifications that extended deliverable dates without determining whether the delays were caused by inadequate contractor performance. Without making such a determination, Treasury assumed all the costs for delays. Overall, we found that TNet delays resulted from what we can only describe as inept leadership and ineffective communication in putting together the statement of work, followed by poor contract and project management. We do acknowledge that one delay was attributable to OMB's TIC initiative, which was beyond Treasury's control since it was promulgated after the task order was awarded.

Below is a more detailed discussion of the issues we identified in our review of the TNet contract and project management that were within Treasury's control.

Absence of Defined Security Requirements

The TNet statement of work did not identify the applicable security category for this information system. Specifically, it did not include the National Institute of Standards and Technology FIPS 199 security category.⁹ We also noted that a shortcut was taken in TNet's statement of work, which was essentially copied from the

⁹ FIPS 199, Standards for Security Categorization of Federal Information and Information Systems, (February 2004), requires federal agencies to establish the security level of protection required for an information system operated on behalf of or owned by the agency.

one prepared for the failed TCE solicitation which also did not include the FIPS 199 security level.

As the TNet statement of work did not specify the FIPS 199 overall security category, AT&T executives informed us that they assumed that TNet's overall FIPS 199 security category was moderate and this was reflective in their proposal. AT&T based their assumption on other work they had performed for Treasury. However, the overall security category assigned to TCS, which TNet replaced, was high. TNet was to provide Treasury with functions and services at least equal to those provided by TCS. Accordingly, to avoid any misunderstanding, Treasury should have ensured the TNet statement of work clearly identified the overall security category requirement.

Nevertheless, it was not until August 5, 2009, that the TNet task order was modified to explicitly require a FIPS 199 overall security category of high. Since the cost of this modification was determined based on negotiation, rather than competition, we believe the cost was most likely greater than it would have been had the security requirements been included in the initial statement of work. A former Treasury CIO agreed that a security level of high should have been assigned before the TNet task order was awarded to AT&T.

We could not determine whether this statement of work deficiency was a result of lack of knowledge of the requirements of FIPS 199, negligence, a rush to award the task order, or some other cause. Office of CIO officials could not identify who was responsible for the preparation of the statement of work or how this oversight occurred. Furthermore, we could not identify any effective Treasury policies, procedures, or controls in place to prevent this from happening again in future information technology acquisitions.

No Delivery Date for the TNet C&A Package

Treasury did not specify the deliverable date for the TNet C&A package in the statement of work. As a result, there was no contractual requirement for AT&T to deliver it in a timely manner. Until this omission was corrected by a modification to the task

order, it could have, for all practical purposes, indefinitely delayed the TNet transition because the Treasury CIO could not have made an ATO determination.¹⁰ Compounding the problem, Treasury could not terminate the task order for default because there was no contractual delivery date in the statement of work for the C&A package.¹¹

When we spoke to Treasury officials about why the statement of work lacked a delivery date for the C&A package, we were informed that they believed that such a date was unnecessary because the contractor had an incentive to deliver it promptly since no payments would be made until TNet was fully operational. However, this line of reasoning failed because it did not adequately ensure that Treasury received its mission critical telecommunication services in a timely manner. This was demonstrated by the fact that Treasury, out of necessity, had to extend the TCS contract.

Therefore, until a contractual date of delivery was provided, Treasury's only options would have been to wait until the contractor provided an acceptable C&A package or terminate the contract for the convenience of the government. If Treasury had chosen the latter option, Treasury would have had to pay for all expenses incurred by the contractor at the date of termination and incur the expense of reprocurement. In our opinion, neither of these options were acceptable, and both would have resulted in additional costs to Treasury.

Contracting Officer Failed to Include a Revised Timeline in Modification Number 5 for TIC

The contracting officer failed to provide a time extension for modification number 5. This modification was issued on April 23,

¹⁰ National Institute of Standards and Technology Special Publication 800-37, Guide for the Security Certification and Accreditation of Federal Information Systems (May 2004), states that an accrediting official needs to review the C&A package prior to granting an ATO.

¹¹ Federal Acquisition Regulation 52.249-8(a)(1) is the standard "Default" clause permitting the government to terminate a contract for default where the contractor breaches the contract. The standard "Default" clause entitles the government to re-procure the supplies or services required under the terminated contract, and charge the excess costs to the terminated contractor.

2008, and incorporated a significant number of security changes, which were collectively referred to as Enhanced Internet Access Security Service. These enhancements included TIC, which required a significant change in the planned deployment, making the original plan of a 9-month transition from the existing contract unrealistic. Modification number 5 did not incorporate any changes to the schedule (i.e., a revised timeline), even though the original schedule was no longer reasonable. Subsequently, modification 13, which was issued on August 20, 2008, incorporated the TIC pricing changes, however, there was still no revised timeline.

According to Federal Acquisition Regulation 52.243-1(b), if there is a change in the contract that causes an increase or decrease in the cost or time required to complete the work, the contracting officer is required to make an equitable adjustment in the contract price, the delivery schedule, or both, and modify the contract.

In this case, modification number 13 adjusted the price for the changes reflected in modification number 5 but did not adjust the delivery schedule. According to the contracting officer, a revised delivery schedule should have been incorporated into the contract. However, it was not done because of an oversight on the part of Treasury. By issuing modification number 5 without updating the schedule in the contract, Treasury allowed AT&T to essentially deliver TNet on an ad hoc basis. In other words, the original schedule was no longer valid because of the necessary additional amount of time required for TIC implementation, and there was no updated schedule to hold the contractor responsible.

Treasury Assumed Responsibility for TNet Contractor Delays

Treasury issued task order modifications that extended deliverable dates without determining whether the delays were caused by inadequate contractor performance. Without making such a determination, Treasury essentially assumed responsibility for all delays, regardless of who was responsible for causing them. While one of the delays was the result of additional work needed to meet OMB's TIC requirement, we believe that much of the additional delays were due to inadequate contractor performance.

Based on our review of the contract files, we believe that AT&T's inadequate performance resulted in delays beginning in October 2008 and lasting through July 2009 (9 months). AT&T's performance issues resulted in increased cost to Treasury since it was necessary to continue funding the TCS contract. Accordingly, we believe Treasury should have assessed damages from AT&T. The contractor-caused delays that we identified are as follows:

- The TNet Transition Plan Version 2.0 dated August 22, 2008, included the C&A package deliverable date as October 21, 2008. This transition plan initially included AT&T's response to the request for quote, and all subsequent revisions were incorporated into the TNet task order by reference. Therefore, we believe, the delivery date included in the transition plan should have been enforceable. On October 1, 2008, AT&T notified Treasury that due to continued security testing at two major facilities, the C&A package would be delivered on November 14, 2008. However, the C&A package was not delivered to Treasury on November 14, 2008.
- Modification number 24, issued December 18, 2008, provided the explicit delivery date for the C&A package on December 11, 2008. We noted here that the modification was issued to require a past due date. An IRS procurement official identified 8 previous AT&T delays since program commencement. However, we were surprised to find that the modification did not include any assessment of responsibility for previous delays. In fact, the supporting documentation stated, "throwing in the penalty language may just make this more contentious and put AT&T on the defensive." Apparently, it was more important for Treasury to keep AT&T in place, regardless of costs or consequences to the government, than to take the proper steps to either obtain satisfactory performance from the contractor or to terminate the contract. Even so, AT&T did deliver a C&A package on the required date of December 11, 2008. On January 9, 2009, the contracting officer notified AT&T that an ATO was not granted for TNet because of an unacceptable number of security risks in the system, Treasury's inability to confirm AT&T's scope of testing to which the system had been

subjected, and a lack of traceability with respect to security testing and evaluation of the system.

- Modification number 34, issued April 21, 2009, set July 3, 2009, as the new deliverable date for a C&A package since the C&A package submitted by AT&T on December 11, 2008, was rejected by Treasury on January 9, 2009, due to the poor quality of the test results. Again, this modification did not contain any assessment of the delay caused by the contractor. Treasury simply set a new deliverable date, and AT&T subsequently failed to meet the July 3, 2009, date.
- Modification number 42, issued June 15, 2009, extended the delivery date for the C&A package to July 22, 2009, because of additional delays in performing security testing and evaluation. And, once again, this modification did not contain any assessment of responsibility for not meeting the July 3, 2009, deliverable date set in modification 34. The supporting documentation for this modification stated that it was issued as a "NO COST" modification and that the government would not seek any damages due to the fact that the delay was both contractor- and government-caused. We disagree. In a letter dated June 10, 2009, from AT&T Director of Contracts addressed to TNet's contracting officer, AT&T took primary responsibility for the delay and there was no mention of the government's role in the delay. This new delivery date of July 22, 2009, set in modification 42, was met by AT&T and the C&A package was used as the basis for the former CIO's decision to provide an interim ATO for TNet.

In summary, AT&T's TNet Transition Plan and subsequent revisions were included in the task order by reference, and therefore, we believe that the C&A package submission date of October 21, 2008, specified in AT&T's TNet Transition Plan Version 2.0, was enforceable. Furthermore, even after the delivery dates were explicitly established in the contract with modification number 24 and subsequently adjusted by modifications numbered 34 and 42, Treasury did not assess any damages against AT&T for contractor-caused delays.

According to Federal Acquisition Regulation 52.243-1(b), if there is a change in the contract that causes an increase or decrease in the cost or time required to complete the work, the contracting officer is required to make an equitable adjustment in the contract price, the delivery schedule, or both, and modify the contract.

We asked the contracting officer if AT&T was responsible for any delays. He responded that AT&T was not solely responsible for the delays and did not think any assessment of damages was appropriate.

We disagree. As discussed above, we believe that AT&T's inadequate performance resulted in additional costs of \$33 million to Treasury for extending the TCS contract.

By issuing the task order modifications that extended delivery dates without assessing damages to the contractor, not only did Treasury miss an opportunity for recovering some of the cost to the government due to contractor-delays, but Treasury also may not have future legal recourse for claiming these damages. We also believe that by doing so, Treasury took a shortcut in order to keep AT&T in place instead of pursuing available remedies to ensure adequate performance. Going forward, the contracting officer must be diligent to ensure that damages are assessed to the contractor when the contractor has failed to perform, to include failure to deliver in a timely manner. Furthermore, decisions not to pursue damages should only be made when in the best interest to the government, and should be appropriately documented and maintained in the contract file. In instances where fault is unclear, the contracting officer should expressly reserve the right to pursue legal remedies when issuing modifications.

Recommendations

We recommend that the Treasury CIO do the following:

1. In coordination with the contracting officer, determine whether damages resulting from contractor delay from October 2008 through July 2009 are legally available and, if so, pursue them.

Management Response

Treasury concurred with this recommendation. The contracting officer consulted with the IRS GLS to determine whether damages are legally available to the government. Based on an opinion from IRS GLS dated June 8, 2011, it is Treasury's position that the government does not have a legal basis to recover damages from AT&T for contractor delays.

OIG Comment

Management's corrective action is responsive to our recommendation. However, we believe there may be some merit in reevaluating IRS GLS's position.

2. Implement appropriate policies, procedures, and controls to ensure that all prospective statements of work for acquisition of information systems clearly state the appropriate FIPS 199 security category.

Management Response

Treasury concurred with this recommendation. Treasury and IRS plan to implement guidance that requires statements of work for the acquisition of information systems to clearly state the appropriate FIPS 199 security category, as applicable. It is anticipated that this corrective action will be implemented by May 31, 2012.

OIG Comment

Management's planned corrective action is responsive to our recommendation.

3. Implement appropriate policies, procedures, and controls to ensure that all prospective contracts or task orders for acquisition of information systems specify the delivery date of an acceptable C&A package.

Management Response

Treasury concurred with this recommendation. Treasury and IRS plan to implement guidance that requires all contracts or task orders for the acquisition of information systems to specify the delivery date of an acceptable C&A package, as applicable. It is anticipated that this corrective action will be implemented by May 31, 2012.

OIG Comment

Management's planned corrective action is responsive to our recommendation.

4. In coordination with the contracting officer, ensure that all future modifications to the TNet task order contain time extensions, as appropriate, for changes in the contract impacting the time required to complete the work.

Management Response

Treasury concurred with this recommendation. The contracting officer, in coordination with the TNet PMO, will ensure that modifications to the TNet task order contain time extensions, as appropriate, for changes in the contract impacting the time required to complete the work. According to management, this corrective action was implemented on July 15, 2011.

OIG Comment

Management's reported corrective action is responsive to our recommendation.

5. In coordination with the contracting officer, ensure that all future modifications to the TNet task order assess damages resulting from contractor-caused delay, as appropriate.

Management Response

Treasury concurred with this recommendation. The contracting officer, in coordination with the TNet PMO and IRS GLS, will assess damages resulting from future contractor-caused delay(s) and ensure that the contract file documents the assessment and any potential compensation. Any resulting modification will include negotiated compensation, as applicable. According to management, this corrective action was implemented on July 15, 2011.

OIG Comment

Management's reported corrective action is responsive to our recommendation.

* * * * *

I would like to extend my appreciation to the Office of the CIO, the IRS Procurement Office, and the TNet PMO for the cooperation and courtesies extended to my staff during the audit. If you have any questions, please contact me at (202) 927-5171 or Abdirahman Salah, Information Technology Audit Manager, at (202) 927-5763. Major contributors to this report are listed in appendix 3.

/s/

Tram Jacquelyn Dang
Audit Director

The objectives of our overall audit are to determine if the Department of the Treasury's implementation of Treasury Network (TNet) was based on sound and effective contract management, project management, security management, and transition management. This report focuses only on our assessment of Treasury's TNet contract and project management. We will report the results related to the remaining objectives in future audit reports. This audit was included in the Office of Inspector General Annual Plan.

We reviewed and analyzed documents related to contract administration and project management of the TNet task order including: the statements of work, requests for quote, the contractor's proposals, cost and pricing information, the contracting officer's technical representative files, and the TNet contract and contract modifications 1 through 50. In addition, we interviewed Treasury personnel responsible for the contract and project management of TNet, and management and representatives of the TNet contractor, AT&T. We performed our fieldwork in Washington, DC, from March 2009 through April 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

See appendix
3 for OIG
Clarifications
to
Management
Comments and
Observations



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JUL 21 2011

**MEMORANDUM FOR TRAM DANG
AUDIT DIRECTOR
OFFICE OF THE INSPECTOR GENERAL**

FROM: Robyn East,
Deputy Assistant Secretary for Information Systems
and Chief Information Officer

SUBJECT: Management Response to Draft Report – Treasury’s Contract and
Project Management of Treasury Network (TNet) Was Poor

We have reviewed the Office of the Inspector General’s (OIG) Draft Report entitled *Treasury’s Contract and Project Management of Treasury Network (TNet) Was Poor* and appreciate the opportunity to comment. Our goal is to continually strengthen the management and oversight of all IT projects and we appreciate the OIG’s recommendations and observations on the implementation of TNet. Additionally, in supporting this goal and as a result of an agreement with the Office of Management and Budget (OMB) at the Information Technology Infrastructure Telecommunications TechStat meeting held on September 29, 2010, the Treasury Office of the CIO (OCIO) agreed to place the TNet’s management oversight activities under the control of the OCIO.

We concur with all five recommendations in the draft report. Attached are responses to each recommendation, including implementation dates of any corrective actions. We have also attached general comments and observations on the draft report for your consideration. We look forward to working with the OIG to implement these recommendations.

If you have any questions, please contact me at 202-622-1200.

Attachment

Attachment

RECOMMENDATIONS:

1. In coordination with the Contracting Officer (CO), determine whether damages resulting from contractor delay from October 2008 through July 2009 are legally available and, if so, pursue them.

RESPONSE: Treasury **concurs** with this recommendation. The CO consulted with the IRS General Legal Services (GLS) to determine whether damages are legally available to the Government. Based on an opinion from IRS General Legal Services dated June 8, 2011, it is Treasury's position that the Government does not have a legal basis to recover damages from AT&T for contractor delays.

Implementation Date: Complete - June 8, 2011

2. Implement appropriate policies, procedures, and controls to ensure that all prospective statements of work for acquisition of information systems clearly state the appropriate FIPS 199 security category.

RESPONSE: Treasury **concurs** with the above recommendation. Treasury and IRS will implement guidance that requires statements of work for the acquisition of information systems to clearly state the appropriate FIPS 199 security category as applicable.

Implementation Date: May 31, 2012

3. Implement appropriate policies, procedures, and controls to ensure that all prospective contracts or task orders for acquisition of information systems specify the delivery date of an acceptable C&A package.

RESPONSE: Treasury **concurs** with the above recommendation. Treasury and IRS will implement guidance that requires all contracts or task orders for the acquisition of information systems to specify the delivery date of an acceptable C&A package, as applicable.

Implementation Date: May 31, 2012

4. In coordination with the contracting officer, ensure that all future modifications to the TNet task order contain time extensions, as appropriate, for changes in the contract impacting the time required to complete the work.

RESPONSE: Treasury **concurs** with the above recommendation. The CO, in coordination with the TNet PMO, will ensure that modifications to the TNet task order contain time extensions, as appropriate, for changes in the contract impacting the time required to complete the work.

Implementation Date: Complete - July 15, 2011

5. In coordination with the contracting officer, ensure that all future modifications to the TNet task order assess damages resulting from contractor-caused delay, as appropriate.

RESPONSE: Treasury **concurs** with the above recommendation. The CO, in coordination with the TNet PMO and G.I.S. will assess damages resulting from future contractor-caused delay(s) and ensure that the contract file documents the assessment and any potential compensation. Any resulting modification will include negotiated compensation, as applicable.

Implementation Date: Complete - July 15, 2011

COMMENTS:

OIG COMMENT 1: Page 7, last paragraph - **Absence of Defined Security Requirements.** The TNet statement of work did not identify the applicable security category for this information system. Specifically, it did not include the National Institute of Standards and Technology Federal Information Processing Standards (FIPS) 199 security category.

RESPONSE 1: The security category was defined as moderate in the AT&T GSA Network Universal Contract. Therefore, the security category for TNet was initially defined as moderate since TNet is a task order under this base contract. At the time of the release of the RFQ and the subsequent award of the task order, a security level higher than moderate was not required.

OIG COMMENT 2: Page 8, last paragraph - **No Delivery Date for the TNet C&A Package -** Treasury did not specify the deliverable date for the TNet C&A package in the statement of work. As a result, there was no contractual requirement for AT&T to deliver it in a timely manner.

RESPONSE 2: The original task order included a delivery date for the C&A Package. In accordance with the TNet task order, Section 1.2, "Summary of Deliverables Plan", required the C&A Plan to be provided to the Government within 30 days of task order notice to proceed.

OIG COMMENT 3: Page 10, last paragraph - **Treasury Assumed Responsibility for TNet Contractor Delays -** Treasury issued task order modifications that extended deliverable dates without determining whether the delays were caused by inadequate contractor performance.

RESPONSE 3: The TNet Contracting Officer (CO) in coordination with the TNet PMO, extended deliverable dates when determined to be in the best interest of the Government. At no time during the transition period was it determined by the TNet CO, in coordination with the

See appendix 3
for OIG
Clarification 1

See appendix 3
for OIG
Clarification 2

See appendix 3
for OIG
Clarification 3

See appendix 3
for OIG
Clarification 4

See appendix 3
for OIG
Clarification 5

TNet Contracting Officer Technical Representative (COTR) and TNet PMO, that there were any delays that could be solely attributed to the performance of AT&T.

OIG COMMENT 4: Page 12, last paragraph **Treasury Assumed Responsibility for TNet Contractor Delays** - In summary, AT&T's TNet Transition Plan and subsequent revisions were included in the task order by reference, and therefore, we believe that the C&A package submission date of October 21, 2008, specified in AT&T's TNet Transition Plan Version 2.0, was enforceable.

RESPONSE 4: In August 2008, the Treasury CIO determined that the TNet security level must be increased from moderate to high. This change in the security categorization requirement prompted a modification to the GSA Network contract and a modification to the Treasury task order, and ultimately caused AT&T to have to modify its C&A package. Therefore, it was not considered prudent to enforce the Government's contractual rights on a deliverable based on a moderate security level. AT&T provided its high security level proposal in November 2008 and it was accepted by Treasury in June 2009.

OIG COMMENT 5: Page 4, middle paragraph, second to the last sentence. "It became more important to the responsible officials to keep the contractor in place, regardless of the costs or consequences to the government, than to take the proper steps to either obtain satisfactory performance from the contractor or to terminate the contract."

RESPONSE 5: This statement is inaccurate and it does not reflect the risk-based assessments that Treasury officials performed in deciding to maintain the contract. There were no remedies in the SLA available to Treasury to change the performance short of termination. Accordingly, Treasury determined that it was preferable to implement a more disciplined program management approach to drive the implementation forward rather than terminate the contract and start from scratch.

The Treasury Chief Information Officer (CIO) provided general comments and observations contained in the management response (see appendix 2) for our consideration. Our clarifications to the comments made in the management response to the draft report are found below.

Management Comment 1

Comment regarding “page [8], [last] paragraph - Absence of Defined Security Requirements - The TNet statement of work did not identify the applicable security category for this information system. Specifically, it did not include the National Institute of Standards and Technology Federal Information Processing Standards (FIPS) 199 security category.”

The security category was defined as moderate in the AT&T General Services Administration (GSA) Networx universal contract. Therefore, the security category for Treasury Network (TNet) was initially defined as moderate since TNet is a task order under this base contract. At the time of the release of the request for quote and the subsequent award of the task order, a security level higher than moderate was not required.

OIG Clarification 1

Based on the work that we performed during the audit, we found that the Networx security category was not defined within GSA’s Networx universal contract. The GSA official informed us that the acquiring agency needed to specify the overall security category for the system being procured in the specific task order under the Networx universal contract. Finally, AT&T executives also told us that the Networx universal contract did not identify the security category. It should be noted that based on the statement of work, TNet was to provide Treasury with functions and services at least equal to those provided by Treasury Communications Systems (TCS). TCS’s overall security category was high. Therefore, the statement of work for the TNet contract should have identified the overall security category requirement of TNet as high.

Management Comment 2

Comment regarding “page [9], [last] paragraph - No Delivery Date for the TNet certification and accreditation (C&A) Package - Treasury did not specify the deliverable date for the TNet C&A package in the statement of work. As a result, there was no contractual requirement for AT&T to deliver it in a timely manner.”

The original task order included a delivery date for the C&A package. In accordance with the TNet task order, Section 1.2, "Summary of Deliverables Plan," required the C&A plan to be provided to the government within 30 days of task order notice to proceed.

OIG Clarification 2

The TNet original task order did specify a delivery date for the C&A plan, 30 days after task order notice to proceed or with the Final Transition Plan. However, there was no specified delivery date for the associated C&A documentation. To be clear, a C&A plan generally identifies the roles and responsibilities for accrediting the system and forms the basis for the activities to be performed and documents to be produced. This C&A plan is not the same as a C&A package, which includes C&A documentation; a full C&A package is required before the authorizing official can issue an authorization to operate. Additionally, the TNet original task order also required that the C&A documentation, as defined within the National Institute of Science and Technology Special Publication 800 series, be delivered to the government 15 working days in advance of the C&A due date. However, the C&A due date was not specified in the original TNet task order.

Management Comment 3

Comment regarding “page [11], [last] paragraph - Treasury Assumed Responsibility for TNet Contractor Delays - Treasury issued task order modifications that extended deliverable dates without determining whether the delays were caused by inadequate contractor performance.”

The TNet contracting officer in coordination with the TNet Program Management Office, extended deliverable dates when determined to be in the best interest of the government. At no time during the transition period was it determined by the TNet contracting officer, in coordination with the TNet contracting officer technical representative and TNet Program Management Office, that there were any delays that could be solely attributed to the performance of AT&T.

OIG Clarification 3

Based on our work, we believe that the delays could be directly attributed to contractor performance. As discussed in the body of this report under the section entitled "Treasury Assumed Responsibility for TNet Contractor Delays," we identified a number of examples where AT&T's performance, or lack thereof, resulted in delays to the contract.

Management Comment 4

Comment regarding "page [13], last paragraph - Treasury Assumed Responsibility for TNet Contractor Delays - In summary, AT&T's TNet Transition Plan and subsequent revisions were included in the task order by reference, and therefore, we believe that the C&A package submission date of October 21, 2008, specified in AT&T's TNet Transition Plan Version 2.0, was enforceable."

In August 2008, the Treasury Chief Information Officer determined that the TNet security level must be increased from moderate to high. This change in the security categorization requirement prompted a modification to the GSA Networx universal contract and a modification to the Treasury task order, and ultimately caused AT&T to have to modify its C&A package. Therefore, it was not considered prudent to enforce the government's contractual rights on a deliverable based on a moderate security level. AT&T provided its high security level proposal in November 2008 and it was accepted by Treasury in June 2009.

OIG Clarification 4

We believe that the C&A package submission date of October 21, 2008, specified in AT&T's TNet Transition Plan Version 2.0, was enforceable.

Management Comment 5

Comment regarding page 4, middle paragraph, second to the last sentence. "It became more important to the responsible officials to keep the contractor in place, regardless of the costs or consequences to the government, than to take the proper steps to either obtain satisfactory performance from the contractor or to terminate the contract."

This statement is inaccurate and it does not reflect the risk-based assessments that Treasury officials performed in deciding to maintain the contract. There were no remedies in the service level agreement available to Treasury to change the performance short of termination. Accordingly, Treasury determined that it was preferable to implement a more disciplined program management approach to drive the implementation forward rather than terminate the contract and start from scratch.

OIG Clarification 5

Based on our review, there was no documentation provided to evidence that Treasury management conducted a risk-based assessment as to whether or not to maintain the contract. In fact, the supporting documentation for modification number 24 states, "throwing in the penalty language may just make this more contentious and put AT&T on the defensive," demonstrating management's reluctance to take the steps that were necessary to obtain satisfactory performance from the contractor.

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