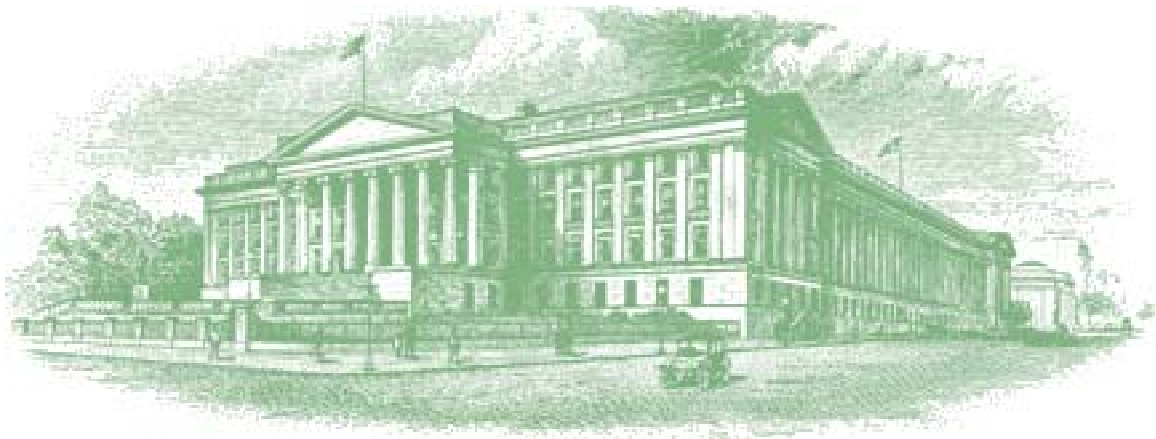
Audit Report



OIG-06-028
MAJOR ACQUISITIONS: Treasury Communications Enterprise Procurement Was Poorly Planned, Executed, and Documented
February 10, 2006

Office of Inspector General

DEPARTMENT OF THE TREASURY

Contents

Abbreviations

ASM/CFO	Assistant Secretary for Management and Chief Financial Officer
CIO	Chief Information Officer
DTS	Digital Telecommunications System
Exhibit 300	Capital Asset Plan and Business Case

FAR	Federal Acquisition Regulation
FTS	Federal Telecommunications System
GAO	Government Accountability Office
GC	General Counsel
GSA	General Services Administration
IRS	Internal Revenue Service
IP	Internet Protocol
MOU	Memorandum of Understanding
OIG	Office of Inspector General
OMB	Office of Management and Budget
RFP	Request for Proposals
TCE	Treasury Communications Enterprise
TCS	Treasury Communications Services

February 10, 2006

Sandra L. Pack
Assistant Secretary for Management and
Chief Financial Officer

This report presents the results of our audit of the business case for the Treasury Communications Enterprise (TCE) project. Treasury's current telecommunication services are being provided through the Treasury Communications System (TCS). The TCS contract expired in September 2005. In May 2004, Treasury issued a request for proposals (RFP) to replace TCS. The new telecommunication services procurement, TCE, was estimated to be potentially worth $1 billion over its expected 10-year life (i.e., an initial 3-year base period and 7 option years, which were expected to be exercised). TCE was intended to serve many Treasury activities, such as paying bills, executing personnel transactions, and sharing information between law enforcement and financial institutions. Treasury also intended for TCE to expand the range of transactions that it conducts on-line with citizens and businesses, including the filing of tax returns and bill paying with electronic invoices. The Internal Revenue Service (IRS) administers the procurement activities for TCE on behalf of the Department.

Our audit was initiated in January 2005 in accordance with the *Office of Inspector General Fiscal Year 2005 Annual Plan.* Our objective was to determine whether Treasury's business case for the TCE procurement was based on appropriate and supportable assumptions and cost/benefit estimates. To accomplish this objective, we: (1) reviewed pertinent Federal Acquisition Regulation (FAR), Office of Management and Budget (OMB), and Treasury requirements; (2) interviewed officials and staff with Departmental Offices, including the Chief Information Officer (CIO), who is the

TCE project owner, IRS, OMB, and the General Services Administration (GSA); and (3) reviewed Office of the CIO and IRS records for TCE. It should be noted that based on the results of our review of the business case support for TCE and other events that occurred during our audit, we expanded our inquiries to cover both the planning and execution of the TCE acquisition.

In December 2004, Treasury awarded the TCE contract to AT&T. Shortly thereafter, a group of unsuccessful bidders protested the award, and in March 2005 the protest was sustained by the U.S. Government Accountability Office (GAO).[1] One basis for the decision to sustain the protest was because Treasury entered into a Memorandum of Understanding (MOU) with OMB and the GSA Federal Technology Service prior to the award and without the bidders' knowledge. The MOU significantly changed the approach set forth in the solicitation for determining whether the Government would exercise option years of the contract, making it significantly less likely that the options would be exercised. This materially altered the basis upon which vendors prepared their proposals. A second basis for GAO sustaining the protest dealt with IRS's price evaluation of AT&T's bid, which GAO found to be unreasonable. In response to the decision, Treasury informed GAO in May 2005 that the Department would terminate the TCE contract with AT&T and intended to acquire TCE services through GSA contracting vehicles.

Since this initial response to GAO on the protest decision, Treasury has reversed its course. Specifically, in August 2005, Treasury and GSA mutually agreed to terminate the MOU, and Treasury informed GAO that Treasury now fully intends to acquire its wide-area network requirements through the TCE solicitation pursuant to the recommendations in the GAO protest decision.

Results in Brief

Treasury's poor planning and execution of the TCE procurement led to delays and increased costs. Specifically, we found that

[1] Decision of the Comptroller General, *Northrop Grumman Information Technology, Inc.; Broadwing Communications LLC; Level 3 Communications, Inc; Qwest Government Services, Inc.; MCI WORLDCOM Communications, Inc.*; B-295526 et al.; March 16, 2005.

Treasury's consideration of GSA contract vehicles, both at the outset and following the TCE bid protest decision, was incomplete and that the business case documentation provided by Treasury, both during and after completion of our fieldwork, was deficient. We expected the documents provided for our review to show evidence that Treasury had considered various GSA (government-wide) telecommunications contract vehicles as alternatives to TCE during 2002 and 2003. This was done to a limited extent, but the documents provided did not show evidence that cost analyses had been performed to compare TCE with these alternatives. Further, Treasury was not able to provide an adequate business case supporting this major acquisition. Throughout our audit field work, we made repeated requests for planning documents, including the TCE business case. Initially, we were given several documents represented by Treasury to be the business case for TCE. We found these documents to be deficient. Subsequently, in response to both discussion and formal drafts of this report and additional discussions with the Treasury CIO and IRS procurement officials, we were provided additional documentation in a piecemeal manner. In response to our official draft for comment issued October 19, 2005, we were provided, on November 18, 2005, approximately 800 pages of additional documentation. This last set of documentation did show evidence of a planning effort. However, the documents were neither cohesive, comprehensive, nor complete. Furthermore, even after the 800 additional pages were provided to us, we found out about an amendment to the MOU with GSA that had not previously been provided.

The contract files for the TCE project that Treasury provided during our fieldwork lacked adequate documentation of senior management approval of the TCE acquisition plan and failed to adequately detail how Treasury had arrived at its $1 billion cost estimate for TCE. Although some of the information that Treasury subsequently provided on November 18, 2005, after we completed our fieldwork, was related to approval of the acquisition plan and the TCE cost estimate, it also did not constitute adequate documentation.

Our report contains three recommendations. In light of the fact that Treasury has reopened the TCE solicitation, we are recommending that Treasury consider all options before awarding the contract, including the option of canceling the solicitation. The approach taken should be thoroughly documented to support the decisions made, and evidence approval by senior management. Appropriate consultation should be made with OMB and Congressional stakeholders about the decision made, with any concerns they may raise being fully and carefully considered. We are also recommending that if Treasury awards a contract under the TCE solicitation that provides for option periods, the contracting officer should conduct a rigorous, defendable, and documented analysis in accordance with the FAR before the options are exercised to determine whether the option price is better than the prices available in the market at the time the option is considered. The analyses should consider prices under government-wide telecommunications contract vehicles available at the time. Furthermore, we are recommending that for future major procurements, all relevant planning and decision documents be maintained in a manner to be readily available for management reference and review as well as audit.

Management Response

In her written response to our draft report, the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) stated that Treasury concurs with all of our recommendations. The ASM/CFO has directed that corrective actions be taken to address the recommendations in our report, and she indicates that a number of actions are in process.

The response acknowledges that our report identifies legitimate concerns about the completeness and lack of organization of the documentation of the TCE business case and decisions of senior management officials with respect to TCE. Management agrees that it is essential that the Department be able to provide the Office of Inspector General (OIG) with a cohesive and complete record of the TCE project. To meet the OIG's needs, as well as to remedy its own difficulties in accessing this information, management has undertaken to assemble a cohesive and complete set of TCE-related project management files in a single repository.

Management also recognized the importance of maintaining documentation necessary to record senior management officials' deliberations and decisions. The response asserts that the TCE contract files have complied with all requirements and that the project has had the full support of Treasury senior officials, who have been briefed regularly on TCE. However, the supporting documentation did not consistently nor clearly reflect senior management decisions to the extent necessary for management review and audit. In this regard, the Department has begun to document the decisions made by the appropriate senior officials in signed memoranda.

The ASM/CFO also stated that while incomplete documentation can have important consequences, management does not believe that in this case it prevented the Department from making the correct decision in selecting among the available alternatives to meet its telecommunications requirements. Going forward, to ensure that Treasury is following industry best practices in managing this program, the Department has employed a consultant who specializes in large federal information technology acquisitions.

In the response, the ASM/CFO requested OIG's assistance in reviewing management's plans to address documentation and other deficiencies identified with TCE.

The text of the management response is included in this report as appendix 4.

OIG Evaluation

We believe the response represents a commitment by management to address our recommendations. Management will need to record its specific corrective actions and target dates for planned corrective actions in the Department's Joint Audit Management Enterprise System pursuant to Treasury Directive 40-03, *Treasury Audit Resolution, Follow-Up, and Closure*. We request that the specific corrective actions taken and planned be provided to our office within 30 days of this report. We will be pleased to work with management in assessing its plans and progress in implementing the corrective actions.

Background

The TCS contract was awarded in 1995 and expired at the end of September 2005 (with terms that allow for a 6-month extension). TCS provides Treasury with a telecommunications infrastructure that integrates the Federal Telecommunications System (FTS) 2000[2] and network-based services. TCS enables a wide range of applications through independent networks to support its customers' mission by integrating respective information systems. It also supports a wide range of services, including video conferencing, multimedia applications, and Internet/Intranet access.

In May 2004, IRS issued an RFP for a TCS replacement contract, TCE, to supply telecommunication services to all of Treasury and its bureaus. TCE was envisioned to enable the convergence of data, voice, and video technologies that TCS now provides through independent networks into a single network infrastructure that supports the operation of applications and services across the entire operating environment through enterprise-wide managed services. Unlike TCS where the contractor maintained telecommunications equipment owned by Treasury, the TCE contractor would take title to the current TCS network assets, making use of any equipment it deemed useful in providing network connectivity and management services, and disposing of the remainder. In effect, the concept of TCE is that Treasury is purchasing a "dial tone."

During this time, GSA was developing a new telecommunications program to be available government-wide, Networx. The current GSA telecommunication services contracts (FTS 2000 and FTS 2001) will expire at the end of 2006, with extensions for transition to the end of 2007. To meet all the government objectives GSA plans to award two Networx contracts – Universal and Enterprise. The Universal contract provides FTS 2001 continuity and service coverage to 9,800 wire centers, approximately 16,000 buildings, and support for 135 agencies. The Enterprise contract provides opportunities for smaller contractors to offer agencies more choices

[2] FTS 2000 is the government's long-distance telecommunications program administered by GSA. FTS 2000 is a private network providing voice, data, and video services to federal employees across the country. The Department uses FTS 2000 for all non-local voice services and for services mandated by Federal Information Resources Management Regulations.

by bundling optional services with a mandatory core of Internet Protocol (IP) and wireless services. According to GSA, Networx is planned to provide all the services included in TCE - integration of IP, wireless, security, managed services, and equipment options that provide flexibility in a changing technology environment. GSA released the Networx Universal and Enterprise RFPs in May 2005. Industry responses to the Networx Universal and Enterprise were due in October 2005, with awards expected (as of February 2006) to be made for Universal in March 2007 and for Enterprise in May 2007.

On December 3, 2004, Treasury awarded an Indefinite-Delivery Indefinite-Quantity contract to AT&T for TCE. However, on December 2, 2004, at the urging of the House Government Reform Committee and OMB, Treasury entered into a MOU with OMB and GSA's Federal Technology Service. The MOU established roles and responsibilities for Treasury and GSA to determine whether Treasury should migrate TCE requirements to a GSA government-wide telecommunications program (Networx) upon the expiration of the TCE contract 3-year base period. Among other things, the MOU provided that Treasury and GSA work together to conduct a best value analysis to determine whether exercising the TCE option years or transitioning to FTS-Networx was in the best interest of the government. In the event that Treasury and GSA could not come to agreement or reasonable determination as to best value, the MOU provided that Treasury and GSA would jointly present the business case to OMB for adjudication. Treasury's CIO signed the MOU on behalf of the Department.

Protests were filed against Treasury for its decision to award the TCE contract to AT&T. In March 2005, GAO sustained the protests. GAO determined that the Treasury/GSA/OMB MOU significantly changed the approach set forth in the solicitation and the FAR for determining whether to exercise the option years of the contract, making it significantly less likely that the option years would be exercised, and thus materially altered the basis upon which the bidders prepared their proposals. The protesters also challenged Treasury's price evaluation for the TCE contract, asserting that the evaluated pricing did not reasonably reflect the likely cost to the government of the various proposals. As discussed in its Decision, GAO found that the price evaluation was unreasonable in that it understated the cost of AT&T's proposal, failed to account for ambiguities in AT&T's proposal, and failed to ensure that the price evaluation was on a common basis. GAO recommended that Treasury: (1) amend the solicitation to reflect its actual approach to option determination, open discussions with all offerors, obtain revised proposals and evaluate the revised proposals in a manner consistent with the solicitation requirements; (2) terminate AT&T's contract and make award to that other offeror if it is determined that an offeror other than AT&T has submitted the best-value proposal; and (3) reimburse the protesters for the costs of filing and pursuing their protests.

In a letter dated May 20, 2005, the IRS informed GAO that it intended to: (1) terminate the TCE contract with AT&T and (2) use GSA contracting vehicles to acquire the requirements delineated in the TCE solicitation. At the end of our fieldwork, the protesters had filed claims with the IRS for costs related to their protests totaling approximately $1.75 million. According to the IRS, the final settlement amounts paid for these claims totaled approximately $1 million.

In a letter dated August 15, 2005, as a change in its previous decision to use GSA contracting vehicles, the IRS informed GAO that Treasury was proceeding with the TCE solicitation pursuant to the recommendations in the March 2005 bid protest Decision. Treasury and GSA also agreed to terminate the MOU.

Findings and Recommendations

Finding 1 Poor Planning and Execution of TCE Resulted in Delays and Increased Costs

From our review of documents provided to us by Treasury, including those provided after completion of our fieldwork, we believe that in its haste to proceed with TCE, Treasury lost potential opportunities for cost savings and made unnecessary mistakes that delayed its goal to replace TCS before September 2005. Our review of the approximately 800 pages of documents we received from the Treasury CIO on November 18, 2005—nearly a month after issuance of our formal draft report[3]—found they did show some evidence of planning for and senior management involvement in the TCE procurement. However, the additional documentation was neither cohesive, comprehensive, nor complete and did not alter our overall finding. Specifically, we found that Treasury's consideration of GSA contract vehicles, both at the outset and following the TCE bid protest decision, was incomplete and that the business planning and procurement documentation provided by Treasury, both during and after completion of our fieldwork, was deficient.

As described in GAO's *Standards for Internal Control in the Federal Government*, control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. With respect to capital planning for a project such as TCE, a key control activity is the development of a sound and supportable business case for the project. It should be noted that OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, which provides instructions to agencies on reporting requirements for major IT investments, as well as guidance to agencies on how to manage capital assets like TCE, also strongly encourages agencies to prepare a sound business case for the project. The related OMB *Capital Programming Guide* provides that an agency's capital planning process is an integral part of the strategic planning process, including business planning for individual investments within the various levels of agencies and bureaus. Failure to properly plan and establish comprehensive business plans often results in cost overruns, schedule delays, and assets that fail to perform as expected.

[3] See appendix 2 for a timeline of key events related to the TCE solicitation and our audit.

As explained in the CIO's transmittal memorandum for the materials provided on November 18, which is included as appendix 3, that information was obtained through a search of Treasury's databases, including historical archived information and inactive accounts. Because these materials could be produced only through such extraordinary means, we conclude that institutional knowledge of what had transpired in the planning of this expensive acquisition was not available to Treasury's decision makers or business owners for TCE. Moreover, despite the potential $1 billion cost estimated for TCE, we saw little evidence of adequate senior management oversight of the project. Most notable was the decision by the current CIO, who joined Treasury in June 2004, to proceed with the project without thoroughly reviewing the planning, justification, and management decisions that were previously made. As a result, Treasury management proceeded with the TCE acquisition without the requisite assurance that all requirements, options, and costs were appropriately considered.

<u>Treasury Did Not Demonstrate that GSA Contract Vehicles Were Fully Considered before Proceeding with TCE</u>

We expected the documents provided for our review to show evidence that Treasury had considered various GSA government-wide telecommunications contract vehicles as alternatives to TCE during 2002 and 2003. This was done to a limited extent. However, as discussed in more detail below, the documents provided did not show evidence that cost analyses had been performed to compare TCE with these alternatives. The documents did show three reasons identified by Treasury for not pursuing GSA contract vehicles: (1) the various GSA contract vehicles would expire during 2006 through 2009, thus requiring a second transition by Treasury; (2) the GSA contract vehicles did not provide for the full range of TCE requirements or for a "managed services"[4] approach to the acquisition of

[4] Under the managed services approach to information technology contracting, the responsibility for all engineering, connectivity, equipment, maintenance, network management, security, etc., of an information technology system is transferred by the government to the vendor, leaving the government in a position of oversight. This relationship enables the government to pass the day-to-day management to the technical experts, while concurrently implementing stricter levels of service through service-level agreements and performance-based contracts.

telecommunications needs; and (3) GSA's overhead charges for its services. With regard to the first reason, the documentation provided no evidence that Treasury had estimated the cost of the transition from TCS to TCE or from TCS to a GSA contract vehicle. There was also no evidence provided for the cost of a second transition.[5] With regard to the second reason, we did not see evidence that Treasury had analyzed the specific services contemplated by TCE that could not be obtained through the available GSA contract vehicles and whether Treasury could do without these services in the short term. In a memorandum dated December 15, 2003, the former Treasury CIO recommended to the ASM/CFO at the time that Treasury proceed with the TCE acquisition as the best approach.[6] Finally, with regard to the third reason, since cost analyses were not performed we could not determine, nor could Treasury, whether GSA's overhead charges were reasonable or not.

The TCE solicitation issued by Treasury was dated May 4, 2004. On that date, Treasury received an email message from a GSA Assistant Commissioner extending an offer to work with Treasury to develop alternatives to TCE.[7] In that email, the GSA official stated the following:

> In my view, the TCE vision involves a unilateral approach that does not benefit from the collective buying power of the government. Further, an independent approach will not allow you to quickly benefit from the lower prices for services pre-negotiated by FTS and available today. Under GSA and FTS, fulfillment of your strategy could be accomplished within a matter of months verses well

[5] The documents provided for our review included a table showing transition costs to TCS from Treasury's predecessor telecommunications services contract. Those costs, according to the table, were incurred from fiscal years 1996 through 2000 and totaled approximately $19.7 million. Treasury estimated in 2005 that a second transition would cost $2.8 million.

[6] No evidence of the ASM/CFO's concurrence with the recommendation was in the documentation provided.

[7] The GSA email was addressed to the Treasury Deputy CIO.

> over a year....*We would welcome the opportunity to benchmark FTS against your current or anticipated prices to demonstrate these savings as it could mean millions in reduced costs for your important Treasury customers.* (Emphasis added)

The GSA official also recommended that Treasury perform a detailed business case analysis of the TCE acquisition to determine the real impact of Treasury's concerns about GSA overhead.

In a May 5, 2004, email, Treasury responded to the GSA official that after considering all factors, Treasury had decided to proceed with TCE. The email said, in part, that Treasury "must mitigate the risk of the possibility of having to transition twice from TCS to FTS2001 to Networx." Treasury also informed the GSA official that the TCE solicitation had been released approximately 2 hours before his email was received.[8]

We believe it would have been prudent for Treasury to have cancelled the then just-issued TCE solicitation and pursue GSA's explicit offer to benchmark FTS for the TCE requirements.[9] We consider this to have been a missed opportunity by Treasury to determine conclusively whether GSA could meet TCE requirements at a more competitive price.

The decision to proceed with TCE was the subject of meetings and email messages between Treasury and OMB throughout 2004. In an internal Treasury email dated May 19, 2004, the Acting Deputy CIO summarized a meeting with OMB as having gone well. He specifically mentioned in the email that one OMB staff member

[8] The documentation provided for our review contained conflicting information as to when the TCE solicitation was actually released. The TCE solicitation was dated May 4, 2005. However, a May 4th internal email, which discussed GSA's offer, indicated that "the TCE" (which we construe to mean the TCE solicitation) would not be released until the following Friday (May 7). Another document prepared for a briefing by the Treasury CIO to the Deputy Secretary, dated November 29, 2004, stated that the TCE solicitation was issued on May 5, 2004.

[9] Had Treasury promptly canceled the solicitation to consider GSA's offer, Treasury could have avoided or minimized potential liability for bid preparation costs. This potential liability became a significant factor in Treasury's re-assessment of GSA contract vehicles in 2005 after the successful protest of the TCE contract award.

appeared to have been satisfied with Treasury's answer to why Treasury was not using GSA and understood the risk of a double transition from FTS 2001 and Networx.

OMB subsequently asked Treasury for additional information, including answers to a series of questions concerning TCE cost estimates compared to GSA prices. OMB also asked whether Treasury had obtained a telecommunications service cost analysis from GSA. The documentation provided for our review did not include Treasury's final reply to OMB. However, in a draft reply prepared by the Office of the CIO and the IRS National Procurement Office,[10] Treasury stated that providing the requested information regarding cost comparisons with GSA contract vehicles was not possible because of "fundamental differences in bundling services under a small number of [contract line item numbers] for TCE."[11] The draft reply gave essentially the same response to OMB's question as to whether Treasury obtained a telecommunications service cost analysis from GSA. When we asked why Treasury had not obtained this analysis, the Treasury CIO told us that it was not required.

On December 2, 2004, Treasury entered into the MOU with GSA and OMB that provided for Treasury and GSA to conduct a price analysis with the planned Networx before the TCE option period was executed (which would occur after the TCE 3-year base period). Treasury awarded the TCE contract to AT&T the next day. Shortly thereafter, the other bidders protested the contract award. One basis of the protest was that the MOU was not made known to the bidders before the contract award and it materially altered the RFP to make the exercise of the option periods less likely. The protest was sustained by GAO in March 2005 for this reason, and also because Treasury's price evaluation of AT&T's bid

[10] The draft reply was attached to an email message from the Treasury CIO to the Acting Assistant Secretary for Mangement (ASM) dated August 13, 2004. In the email message, the CIO advised the Acting ASM that OMB was still concerned about TCE.

[11] Although Treasury implies in this draft reply to OMB that a cost comparison could not be done because of disparities between GSA contract vehicles and TCE, a November 2002 consultant-prepared document entitled *TCE Baseline Business Case Approach* provided for our review on November 18, 2004, included a discussion of a return on investment analysis that showed estimated costs for TCS and TCE over fiscal years 2003 through 2007, thereby evidencing that cost comparison could be done between TCE and the GSA vehicles.

was unreasonable. Early in our audit, and before the GAO decision on the protest, the Treasury CIO and an IRS procurement official told us that they were confident the protest would be denied. There was no indication in the documents provided for our review that Treasury had assessed the impact of the MOU on the TCE solicitation before making the contract award. Had such a risk assessment been made and the TCE solicitation amended as appropriate (i.e., the bidders informed of the MOU and the award date extended), Treasury would have likely avoided the issue of the MOU as a basis for the protest.

The documentation provided for our review did not include any documents (e.g., email traffic, internal memos) about the genesis of the December 2, 2004, MOU. One provision of the MOU that Treasury inexplicably agreed to was that the TCE/Networx best value analysis would not include transition costs, although transition costs were a major reason cited earlier by Treasury for not pursuing GSA contract vehicles. During a meeting with the Treasury CIO and the Director, IRS Procurement, on November 28, 2005, we inquired about this provision in the MOU. The IRS procurement official told us that the provision was "a mistake" and that the MOU had subsequently been amended. This was the first time we were told of this amendment, more than a month after our official draft report was issued for comment. The amendment, which was dated February 1, 2005, and signed by the Treasury CIO and GSA, stated the following:

> We did not intend and will not interpret, construe or implement the MOU to conflict with or diminish the authority of the Treasury Contracting Officer, consistent with [the FAR] to exercise options under the [TCE contract].

Two things about this document are noteworthy. First, while OMB was a signatory to the MOU, it was not a signatory to this document. Second, this document effectively introduced transition costs as a factor in conducting the best value analysis between TCE and Networx after the TCE's 3-year base period.[12] In essence, this amendment made it less likely that Treasury would

[12] Under the FAR, the contracting officer would be expected to consider transition costs.

move to Networx. As with the MOU, the documentation provided for our review did not contain information as to the genesis of the document. There was also no evidence that Treasury had informed OMB about this new document.

In May 2005, the IRS National Procurement Office informed GAO that Treasury would terminate the TCE contract with AT&T and intended to acquire TCE services through GSA contracting vehicles. There was no evidence in the documentation provided for our review that any analyses of GSA contract vehicles had been performed before IRS informed GAO of this decision. It is unclear why Treasury so quickly abandoned TCE for GSA without such an analysis, considering Treasury's earlier determination that GSA could not meet its needs. When Treasury finally did analyze its options, it reversed course to once again proceed with the TCE solicitation. However, this most recent analysis was incomplete and the assumptions and cost factors considered were not adequately supported.

<u>TCE Business Planning and Procurement Documentation Provided during Audit Fieldwork Was Incomplete</u>

We experienced a great deal of difficulty in obtaining documentation throughout this audit. We were often told that documents existed only to be told later that they did not exist. Similarly, we received conflicting information at times that certain documents did not exist only to find out that they did. We were also not told of key events relevant to our audit, including events that occurred immediately prior to meeting with the CIO and were the subject of those meetings. Furthermore, Treasury has experienced significant turnover and long-term vacancies in senior leadership positions since the TCE project was first conceived until just recently. For example, Treasury's current CIO has served in that position since June 2004. The ASM/CFO position was vacant from February 2004 until August 2005, with duties related to operational management and financial management split between acting personnel during this period.

A business case is a structured proposal for business improvement that functions as a decision package for organizational decision makers. It includes an analysis of business process performance and associated needs or problems, proposed alternative solutions, assumptions, constraints, and a risk-adjusted cost-benefit analysis. A business case provides a format to demonstrate that agency management has used the disciplines of good project management; presented a strong business case for the investment; and met other Administration priorities to define the proposed cost, schedule, and performance goals for the investment if funding approval is obtained. In addition, a business case should address security, privacy, and enterprise architecture and should specify the effectiveness and efficiency gains planned by the business lines and functional operations.

Business case documentation provided for our review during the audit fieldwork was deficient. Early in our audit, we asked for Treasury's business case and related documentation for TCE, including approval documents. We were initially told by the CIO that such documents did not exist and if they did, he was not aware of it. We were later provided, by the Office of the CIO, an OMB Exhibit 300, *Capital Asset Plan and Business Case,* for the fiscal year 2006 budget year titled *Treasury Integrated Infrastructure.* This Exhibit 300 was a consolidated presentation as required by OMB of all the major individual infrastructure initiatives of the Treasury bureaus and the DO, and the Exhibit discussed TCE. According to the CIO, this Exhibit 300 met OMB's requirements for capital investment planning. However, this summary document did not provide a comprehensive business plan by itself for TCE. With respect to TCE, it stated the following:

> The Treasury Communications Enterprise (TCE) converged network produces a number of tangible financial and operation benefits. A standardized architecture will dramatically reduce total cost of ownership while providing scalability for future growth. Application integration costs will also fall with TCE, as messaging services are consolidated into a single inbox. Also, TCE will reduce costs for network administration. TCE will optimize spending while improving productivity and user satisfaction with telecommunications services. Treasury estimates an overall improvement in employee productivity of 30 minutes per day with a simplified process and easier

> access. Direct user connections to the network will improve campus mobility, and both internal and external interoperability. Improvements in Operational Support Services will lead to more accurate billing and consistent service levels; while the overall structure of Treasury's managed services approach will ensure high levels of customer satisfaction, as bureaus will be free to pick the services they need.

We concluded that the consolidated Exhibit 300 did not provide an adequate business case for moving forward with TCE. Other than the mention of a 30-minute daily improvement in employee productivity, it provided no information as to the costs and benefits of TCE; the alternatives considered, such as GSA's planned Networx; or why Treasury considered TCE the best course of action.[13]

We asked whether a more detailed business case for TCE existed in support of management's decision (undocumented) or the consolidated Exhibit 300. We were provided a draft Exhibit 300 for the fiscal year 2005 budget year by the Office of the CIO staff. The capital investment covered by this draft Exhibit 300 was titled *TCS-DTS-TCE Network Telecommunications and Infrastructure*.[14] Among other things, the draft Exhibit 300 described how the Department needed to move from TCS to TCE because the TCS contract would end in September 2005. It did not, however, present information as to the estimated cost, schedule, and performance goals for TCE. Additionally, it made reference to

[13] At the audit exit conference, Office of CIO staff stated that this consolidated Exhibit 300 was prepared as part of Treasury's capital investment submission in accordance with OMB instructions and that OMB did not raise any concerns with the document. The context of our review of the consolidated Exhibit 300 was to determine whether the document presented a comprehensive business case for TCE (a sound management practice), not whether it conformed with OMB's capital investment submission requirements.

[14] According to the draft Exhibit 300, the Digital Telecommunications System (DTS) provides integrated voice/data telecommunications services to all Treasury bureaus within the Washington, D.C., metropolitan area. The DTS initiative includes several separate programs such as (1) the DTS2 program, which provides Treasury bureaus in Washington, D.C., with a vehicle for acquiring, implementing, operating, and managing digital communications facilities delivered as Seats or suites of services to over 37,000 end users; and (2) voice messaging services to over 90,000 nationwide subscribers.

formal cost/benefit and return-on-investment studies that would be done in fiscal year 2004. We asked for but were not provided with these studies. We subsequently learned that these studies had not been performed. Furthermore, the draft did not include migration to GSA's Networx as an alternative in its analysis.[15] Based on the above, we concluded that the draft Exhibit 300 did not constitute a complete business case for TCE.

We asked the TCE Program Manager whether any other business case documentation existed that mapped out Treasury decisions, needs, requirements, and approval by senior management authorizing the procurement phase of the TCE project. The only documents the Program Manager identified were procurement documents, such as the milestone document, the acquisition plan, and the source selection decision document, not program office planning documents, such as the TCE justification or business case.

Early in our fieldwork, we were also informed of OMB's reluctance to Treasury's going forward with the TCE project. We asked what OMB's concerns were. The CIO stated that although he was aware when he joined Treasury that OMB, GSA, and Congress had issues with the TCE project, he did not see any reason to cancel, delay, or review the underlying documentation of the related RFP since so much had already taken place. According to the CIO, OMB wanted the government to buy smarter and have IT services packaged for cost savings; GSA wanted to centralize operations; and the House Government Reform Committee wanted spending to be controlled and waste eliminated from new programs being developed (e.g., enterprise telecommunications systems).

The CIO told us that Treasury had informed OMB that the TCS contract was expiring soon and Treasury did not have time to wait for GSA's Networx contract. We were also told that OMB had insisted on the MOU. Treasury's CIO signed the MOU on December 2, 2004, the day before the contract was awarded to AT&T.

[15] The draft Exhibit 300 cited three alternatives: (1) keep TCS as is, (2) migrate TCS to TCE, and (3) allow individual bureaus to choose their own communication services.

Subsequent Events—Treasury's Reconsideration of GSA Contract Vehicles after Bid Protest Decision Was Incomplete

On August 4, 2005, we provided management with a discussion draft of this report, in which we concluded that Treasury was prudent in (1) terminating its TCE contract with AT&T and (2) intending to use GSA contracting vehicles to meet its TCE requirements. On August 5, we were informed by the CIO that GSA could not meet Treasury's communications needs. The same day, the CIO provided us with a consultant study dated October 2004 as evidence of an independent validation he had obtained of Treasury's TCE acquisition strategy.

At our meeting with the CIO and IRS procurement officials on November 28, 2005, to discuss the additional materials provided on November 18, the CIO explained that the October 2004 study had been done to answer an earlier question by the OMB Administrator for Electronic Government and Information Technology as to whether the TCE solicitation was performance-based. It is unclear why this question could not have been answered through a staff review of the solicitation. That being said, the consultant found that the TCE solicitation was generally in the form of objectives and sought the best solution. However, the consultant also noted that the solicitation was not optimally structured for a best value selection as the price as a factor outweighed each technical factor. According to the consultant, this could result in a "low-bid" win rather than a selection based on the best technical solution, and having the best solution is fundamental to performance-based acquisition. Additionally, the consultant noted that there were too many performance measures and the measures were not clearly tied to strategic or program objectives.[16] We believe that such an independent study would have provided a greater benefit to Treasury if it had been obtained prior to the issuing the solicitation in May 2004 so that the consultant's findings could have been considered in preparing the solicitation.

[16] *Acquisition Strategy Independent Validation and Verification Contract TIRN-04-K-00517 Report and Recommendations*, Acquisition Solutions, Inc., dated October 18, 2004.

After learning through various news media accounts that Treasury had decided to terminate the MOU with GSA and reopen the TCE solicitation, we asked the CIO on August 24 for related documentation and his analysis for deciding that reopening the TCE solicitation was the best course of action.

In response to our request, on August 26 the CIO provided the following:

- The agreement to terminate the MOU signed by GSA and the CIO on August 4, 2005.

- A document entitled *TCE Solicitation Alternatives*, dated June 22, 2005, which the CIO stated was developed in a GSA/Treasury working session. The document discussed and included an analysis of three options: (1) FAR Part 15 Treasury-led solicitation, (2) FAR Part 15 GSA-led solicitation, and (3) FAR Part 12 GSA-led solicitation.[17]

- A one-page document entitled *TCE Alternatives Analysis*, which the CIO stated was developed by Treasury to summarize the above document and was to be used by participants in a June 28, 2005, conference call between Treasury and GSA executives.

- A document entitled *TCE Talking Points* dated June 28, 2005, which the CIO stated was used to brief OMB on June 30, 2005, on the conclusions reached in the Treasury/GSA discussion of alternatives. The document discussed the TCE background and development process, including acquisition alternatives that were evaluated across the federal government prior to the TCE solicitation, and five alternatives that were assessed following the GAO protest decision. These alternatives, the first two of which were discarded by Treasury without an extensive cost/benefit analysis, were as follows:

  <u>Option 1</u> Continue with existing TCS contract until Networx is available (discarded by Treasury because option

[17] FAR Part 15 prescribes policies and procedures for competitive and non-competitive acquisitions. FAR Part 12 prescribes policies and procedures for the acquisition of commercial items "off the shelf" that meet the government's needs.

did not overcome either the near-term risk of TCS contract expiration or the higher costs of that contract relative to current industry norms).

Option 2 Use existing contracts and GSA government-wide acquisition contracts to cover functional pieces of the Treasury wide area network until Networx is available (discarded by Treasury because Option introduced excessive complexity with no greater benefit than Options 3 and 4).

Option 3 Modify and use GSA FTS contract until Networx is available. This option would involve (1) terminating the AT&T contract, (2) canceling the TCE solicitation, (3) reformatting the TCE solicitation for solicitation under FTS, and (4) coordinating with GSA to develop modifications to FTS.

Option 4 Take corrective action and follow full and open approach (i.e., proceed with the TCE solicitation). This option would involve (1) rescinding the MOU with GSA and OMB, (2) terminating the AT&T contract, and (3) advising offerors under the TCE solicitation of the cancellation of the MOU, identifying the shortcomings in their proposal, and instructing them to follow pricing instructions in the TCE solicitation.

Option 5 Use GSA-led full and open competition. This option, which was proposed by GSA, would involve (1) terminating the AT&T contract, (2) canceling the TCE solicitation, and (3) working with GSA to modify the TCE solicitation for solicitation under GSA. The option would provide for a base contract period of 3 years and up to 7 option years, and would allow Treasury to transition to Networx.

The *TCE Talking Points* document also included a section called “Recommendation and Next Steps,” but there was no narrative in this section. However, based on our discussions with the CIO, Treasury is now pursuing Option 4 as outlined in the document.

- A letter from the IRS Office of the Chief Counsel dated August 15, 2005, informing GAO of the following: "While Treasury initially indicated otherwise in its letter dated May 20, 2005, Treasury now fully intends to acquire its wide-area network requirements through the Treasury Communication Enterprise ('TCE') solicitation pursuant to the recommendations set forth in GAO's decision dated March 16, 2005."

We have a general concern and number of specific concerns with the documentation provided in August 2005. Our general concern is that these documents do not reflect a complete record of Treasury's interactions with GSA and how Treasury reached the conclusion that GSA was unable to meet the Department's communication needs. In a letter transmitting these documents to us, the CIO stated the following:

> Treasury's and GSA's communications regarding this matter began in May 2005 and were conducted primarily face-to-face and over the telephone. There was little in the way of discussion of substantive issues in correspondence, electronic or otherwise. However, a number of documents were created to capture the discussions that had taken place and/or to provide a basis for briefing others. Those documents are attached, and we describe here the functions those documents served. [Note: The attached documents referred to were the above-described *TCE Solicitation Alternatives*, *TCE Alternatives Analysis*, and *TCE Talking Points*.]

At the audit exit conference on September 7, 2005, the CIO and the Director, IRS Procurement, provided additional details about the meetings with GSA in which the pros and cons of the options were discussed, including legal issues that might result in protests or otherwise preclude serious consideration of certain options through GSA contracting vehicles. Although we asked for all documentation of all communications with GSA, we were not provided minutes or other records that documented the parties to the communications, specific discussion points, and areas of agreement and disagreement. We were also provided no documentation of the results of the June 30 meeting with OMB, which we were told at the exit conference that GSA officials had attended along with Treasury. We were also told at the exit conference that Treasury and GSA officials had briefed staff with the House Committee on Government Reform about this matter. We were not provided with minutes of that meeting. The fundamental principle of government accountability dictates that an agency maintain a record adequate to permit meaningful review. We believe that the documentation provided on how Treasury came to the decision to reopen the TCE solicitation falls short of an adequate record.

The *TCE Talking Points* included a comparison of several cost factors for the three options that were considered (i.e., not discarded) by Treasury. As shown in the following table, the totals of these cost factors appear to support the selection of Option 4 (i.e., proceed with the TCE solicitation) as the least costly approach:

Costs Identified by Treasury	Option 3 Modify and Use FTS Contract Until Networx Is Available	Option 4 Take Corrective Action and Follow Full and Open Approach (Selected by Treasury)	Option 5 Use GSA-Led Full and Open Competition
Totals	$27,450,000	$1,000,000	$39,650,000

However, the individual cost factors included in the above totals were based on certain significant and unsupportable assumptions, including the following:

- Treasury estimated a cost factor for Option 5 identified as “Overspend vs. Full and Open for Services” that was not included in Options 3 and 4. This cost factor was based on two estimates. The first estimate was that Option 5 would require an additional 3 months to accomplish when compared to the other two options. The second estimate was the additional monthly cost to Treasury to continue operating under the TCS contract compared to TCE. This estimated additional monthly cost was based on (1) the current annual TCS contract cost plus an additional 10 percent Treasury expected to be charged by the TCS contractor after that contract expired in September 2005 less (2) the annual TCE cost "based on vendor proposals" for the protested TCE contract award.

We make several observations regarding these estimates. First, Treasury cited as its basis for the 10 percent increase in TCS costs that there was no incentive for the TCS contractor to lower costs. While this could be true, it should be noted that the TCS contractor did submit a proposal in 2004 for the original TCE solicitation and therefore could have had an incentive to at least hold TCS costs steady beyond the contract expiration.[18] Second, the annual TCE cost was based on the AT&T proposal. In this regard, GAO found that Treasury's price evaluation was unreasonable in that it understated the cost of AT&T's proposal, failed to account for ambiguities in AT&T's proposal, and failed to ensure that the price evaluation was on a common basis.

- Treasury estimated a cost factor that would be incurred for Options 3 and 5 if the TCE contract was cancelled to compensate the vendors for their bid preparation costs. Treasury did not cite a basis for the estimate on the document. According to the CIO and IRS procurement officials, this estimate was developed during a meeting and was based on the "subject matter expertise" of the teams and salaries that vendors would put together to develop a bid. They said that no further documentation was available for review.

Most important, a key analysis that was not included in the *TCE Talking Points* and other documents provided by the CIO was a comparison of the services that Treasury would receive under the options presented. We believe this is a significant omission in the presentation and without such a comparison of services it is difficult, if not impossible, to determine which option represented the best course for Treasury.

In conclusion, we believe that the additional documentation provided by the CIO in August and November 2005 does not

[18] On December 7, 2005, the day before proposals in response to the new TCE solicitation were due, the current TCS contractor announced that it had decided not to bid on the TCE contract.

represent a comprehensive and compelling business case for proceeding with the TCE solicitation. We are also concerned that Treasury generally has not been forthcoming in providing information to our auditors about TCE. For example, when we met with the CIO on August 5 about the status of TCE, we were not told that Treasury and GSA had terminated the MOU the day before. Additionally, during our audit, we made repeated requests for the business case or anything else available supporting TCE. We were provided many documents only after learning through the media that Treasury had reversed course and intended to proceed with the TCE solicitation. With the ongoing stakeholder criticism of the TCE project, the lack of planning and a sound business case for TCE as noted in our finding, and the planned initiatives by GSA to acquire telecommunications services on a government-wide basis, it is difficult—based on the extent and quality of the documentation provided—to understand why Treasury still intends to proceed with TCE. That being said, in going forward with the TCE solicitation, Treasury needs to ensure that the problems with the price evaluation identified by GAO in the protest decision are addressed.

As a final observation, should Treasury award the planned TCE solicitation with a base 3-year period and option years, it needs to ensure that appropriate analyses are conducted in accordance with the FAR before the option years are exercised. According to the Director, IRS Procurement, at the exit conference, the best value analysis provision included in the terminated Treasury/GSA/OMB MOU was similar to the required analysis in the FAR, with the key distinction that the analysis under the FAR is the responsibility of the contracting officer for the procurement.

Finding 2 Contract Files Lacked Certain Documentation

The materials that Treasury provided during our fieldwork lacked adequate documentation of senior management approval of the TCE acquisition plan and failed to adequately detail how Treasury had arrived at its $1 billion cost estimate for TCE. Although some of the information that Treasury provided after we completed our fieldwork was related to approval of the acquisition plan and the TCE cost estimate, it did not constitute adequate documentation.

The FAR, Subpart 4.8, *Government Contract Files*, states that the documentation in contract files shall be sufficient to constitute a complete history of the transaction to, among other things, provide a background as a basis for informed decisions at each step in the acquisition process and to support the actions taken. Examples cited as to the type of records normally to be retained in the contract file include, but are not limited to, (1) the purchase request, (2) acquisition planning information, (3) justifications and approvals, and (4) the government estimate of the contract price. In addition, as noted in Finding 1, GAO's *Standards for Internal Control in the Federal Government* states that internal control activities include creation and maintenance of records that provide evidence of execution of approvals and authorizations.

We were unable to find an approval document within the TCE contract file for proceeding to the procurement stage of the process. The acquisition plan was not signed and did not adequately address all required elements. According to the FAR, the acquisition plan's cost line item must identify the established cost goals for the acquisition, the rationale supporting them, and discuss related cost concepts to be employed, including as appropriate the life-cycle cost. The TCE acquisition plan showed only the estimated cost of $1 billion on the front of the document. Under the cost line item it stated: "we need to eet (sic) the TCS number and reduce by X%." Additionally, the FAR requires the plan to describe how budget estimates were derived and to discuss the schedule for obtaining adequate funds. The TCE acquisition plan stated that funding will be provided by individual ordering offices and will be obligated on individual delivery orders or task orders. The minimum commitment on the contract will be stated in terms of the number of sites, etc. It did not identify the estimated dollar amount, nor did it identify the Working Capital Fund as the funding vehicle.

Furthermore, no documentation existed that detailed how the TCE estimated cost of $1 billion was determined. In this regard, the TCE Program Manager told us that he and the IRS contracting officer for the TCE procurement developed the estimate in an "undocumented exercise." [DELETED]

With regard to our queries about an approval document to proceed with the TCE procurement, the CIO said that everything was done prior to his arrival at Treasury. Furthermore, he did not think that there was such an approval document, but suggested we contact the Source Selection Official for the TCE procurement, who was formerly with the Office of the CIO at the time the TCE concept was being developed. We met with this official and he said that the current TCE Program Manager would be the most knowledgeable person to speak to about TCE because the individual supervised both the program and technical teams for TCE. We followed up with the TCE Program Manager regarding approval documentation for TCE. We inquired as to whether he had any documentation for TCE denoting senior-level management approval to proceed with the procurement. He stated that he came on board after the decision was made to procure TCE and could not provide the requested documentation. The TCE Program Manager did suggest, however, that an approval document might be in the TCE contract files.

The additional documentation provided for our review on November 18, 2005 – a month after the date of our draft report – included a memorandum to the TCE procurement files signed by the IRS contracting officer and dated November 8, 2005, that consisted of two attachments. The first attachment was referred to as a "replacement" signature page to the acquisition plan and was signed by the contracting officer and dated November 8, 2005. The memorandum stated that the signature page had been executed on or about January 8, 2004, but had been misplaced.

The second attachment was a description of the analysis conducted to determine an estimated value for TCE capability. [DELETED]

While this attachment provides some additional details of the process used, it did not provide the specific analysis performed to derive the $1 billion cost estimate for TCE.

Recommendations

Treasury amended and reopened the TCE solicitation in October 2005 to the original bidders. Extended several times, the deadline for bids was December 8, 2005. We believe that Treasury's decision to go forward with the TCE solicitation involves considerable risk. One risk is that without an adequate cost and services comparison with other government-wide telecommunications contract vehicles, TCE may not represent the best solution. Another risk is that further successful protests and resultant delays and increased costs may occur if Treasury has not adequately addressed the problems noted by GAO, such as its price evaluation of vendor proposals. With respect to this second risk, Treasury informed GAO that it would comply with GAO's bid protest decision, which addresses the price evaluation process. We are making three recommendations to address the other conditions found in our audit. Specifically, the Assistant Secretary for Management and Chief Financial Officer should take the following steps:

1. In light of the fact the Treasury has reopened the solicitation, ensure that Treasury considers all options before awarding the contract, including the option of canceling the solicitation. The approach taken should be thoroughly documented (i.e., with a

sound business case) to support the decisions made and there should be evidence of approval by senior management. Appropriate consultation should be made with OMB and Congressional stakeholders about the decision made, with any concerns they may raise being fully and carefully considered.

2. If Treasury awards a contract under the TCE solicitation that provides for option periods, ensure that the contracting officer conducts a rigorous and defendable analysis in accordance with the FAR before any options are exercised to determine whether the option price is better that the prices available in the market or that the option is the more advantageous offer. The analyses should consider prices under available government-wide telecommunications contract vehicles. The analyses should also be fully documented in the procurement records.

3. In the future, ensure that planning and decision documents for major acquisitions (e.g., business cases, cost/benefit analyses of alternatives considered and the bases for those analyses, minutes or other records of key events, approval by senior leadership) are maintained in a manner to be readily available for management reference and review as well as for audit.

* * * * * *

The major contributors to this report are identified in appendix 5. If you have any questions, please contact me at (202) 927-5400 or Thomas E. Byrnes, Director of Procurement Audits, at (202) 927-5904.

Marla A. Freedman
Assistant Inspector General for Audit

We reviewed the TCE procurement as part of the *Office of Inspector General Fiscal Year 2005 Annual Plan*. Our objective was to determine whether Treasury's business case for the TCE acquisition was based on appropriate and supportable assumptions and cost/benefit estimates. Based on the results of our review of the business case support for TCE and other events that occurred during our audit, we expanded our inquiries to cover both the planning and execution of the TCE acquisition.

We began our fieldwork in February 2005, at the Departmental Offices in Washington, D.C., and the IRS National Procurement organization in Oxon Hill, Maryland. As part of our fieldwork, we reviewed laws, regulations, guidance, and Treasury directives applicable to capital asset acquisitions. We also reviewed contract files and related documentation. We interviewed the Treasury CIO and officials and staff with the Office of the CIO, IRS, OMB, GSA, and GAO.

In addition, we interviewed GSA officials regarding GSA's planned Networx telecommunications contract to be awarded in 2007 and we compared the types of services in the Networx solicitation to those in the TCE solicitation. We also reviewed the Departmental Offices planning process, documentation, and contract files for compliance with applicable laws, regulations, guidance, and Treasury Directives.

As discussed in our report, business case and other planning documentation was provided for our review in a piecemeal fashion. Collectively, that documentation was neither cohesive, comprehensive, nor complete. That documentation included 800 pages assembled by the Office of CIO and provided for our review on November 18, 2005, after we issued our formal draft report for official comment. According to the CIO, these documents were identified through a search of Treasury databases using an automated tool. That search yielded over 60 gigabytes of data based on a keyword search for TCE from which management made hardcopies of matters related to Treasury planning, senior management engagement, and documents provided to GSA and/or OMB. Management also provided us the search data on seven DVDs, which included over 121,000 files. We performed a limited review of these DVDs and found some additional documentation related to TCE planning that was not included in the hardcopy documentation provided by management. This additional documentation, however, did not affect our conclusions in this report.

We conducted our audit in accordance with generally accepted government auditing standards.

Following is a timeline of key events related to the TCE solicitation and our audit. The events affecting our audit **(in bold)** include dates on which we provided draft reports to and conducted exit conferences with management and dates on which substantive additional documentation relative to the planning and execution of the TCE solicitation was provided by management for our review.

5/4/2004	12/2/2004	12/3/2004	**1/10/2005**	**2/9/2005**
Date of Treasury's solicitation for TCE.	Treasury CIO signs MOU with GSA and OMB.	Treasury awards TCE contract to AT&T; bid protest filed with GAO shortly thereafter.	**OIG issues engagement memorandum.**	**OIG holds audit entrance conference.**

3/16/2005	5/20/2005	**8/4/2005**	**8/5/2005**	8/15/2005	**8/24/2005**
GAO sustains bid protest.	Treasury informs GAO that it intends to cancel AT&T contract and use GSA contracting vehicles.	CIO and GSA agree to terminate MOU. **OIG issues discussion draft of report.**	**OIG meets with CIO on discussion draft; CIO provides a consultant study as evidence of TCE planning.**	Treasury informs GAO that it now intends to proceed with TCE solicitation.	**OIG requests other documentation discussed at 8/5/2005 meeting.**

8/26/2005	**9/7/2005**	**10/17/2005**	**10/19/2005**	**11/13/2005**	**11/18/2005**
CIO provides additional documents.	**OIG holds first exit conference with CIO and representatives from IRS and General Counsel (GC).**	**OIG holds second exit conference with ASM/CFO, CIO, and representatives from IRS and GC.**	**OIG issues formal draft report for official comment; comments were due in 30 days (11/18/2005).**	**CIO requests extension for comments to 12/2/2005; request granted by OIG.**	**CIO provides 800 pages of additional documentation identified through search of databases.**

11/28/2005	**11/30/2005**
OIG is informed of 2/1/2005 amendment to MOU during meeting with CIO and representatives from IRS and GC.	**Office of CIO provides MOU amendment and seven DVDs containing over 121,000 files obtained through search of databases.**

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220
NOV 17 2005

MEMORANDUM FOR: **MARLA A. FREEDMAN**
ASSISTANT INSPECTOR GENERAL FOR AUDIT
OFFICE OF INSPECTOR GENERAL

FROM: Ira L. Hobbs
Chief Information Officer

SUBJECT: Additional Documentation Related to Treasury Communications Enterprise (TCE) Project

Attached please find additional documentation related to the Treasury Communications Enterprise (TCE) project. In preparing management's response to the draft audit report, "Treasury Communications Enterprise Procurement was Poorly Planned and Documented" (October 19, 2005), we reviewed all documentation that was provided to the Office of Inspector General (OIG). In addition and as explained below, Treasury has used the intervening time to undertake a more thorough search of archived electronic information and is pleased to provide this further documentation of the planning, decision-making, and key internal and external communications regarding the TCE project.

Documentation previously provided to OIG included the procurement contract files, the Consolidated IT Infrastructure E-300s, a wide range of TCE materials on two CD's (provided on March 11, 2005 and March 24, 2005), and a number of briefing papers and other documents in response to OIG questions on August 26, 2005, August 30, 2005, and September 1, 2005. Approximately 2 weeks ago, after receipt of the draft audit report, Treasury completed the deployment of a sophisticated search tool which provides capabilities to perform comprehensive searches of databases, including historical archived information and inactive accounts. The search tool produced over 60 gigabytes (7 DVDs) of data based on a keyword search for TCE within Departmental Offices databases. The attached information is a subset of the search results, representing key documents determined from examination of their titles to be relevant to the issues discussed in the OIG draft audit report. However, OIG is welcome to review the full contents of the disks. We did not include each individual document in this attachment due to the volume and level of applicability of the information. We have included documents related to Treasury planning, senior management engagement, and documents provided to GSA and/or OMB.

We regret the delay in providing this information to your office. Treasury is committed to full disclosure in this process. However, the organizational changes over the past few years have made it more difficult locating documents which pre-date current Treasury leadership within the Office of the Chief Information Officer and the Office of the Assistant Secretary for Management. We hope the attached information will help provide a clear picture of the development of TCE over the past 4 years. Please note that there are documents within these binders which contain procurement sensitive information and are marked as such. Access and disclosure of procurement sensitive information is subject to the guidelines defined in FAR 2.101 and 3.104 regarding Source Selection Information. In the case that OIG wishes to discuss the procurement sensitivity of any information, please feel free to contact Bobby J. McCane within the IRS Procurement Office at (202) 283-1319, or via email at bobby.j.mccane@irs.gov. For any other questions, please feel free to contact me at 202-622-1200.

Attachment

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

JAN 31 2006

MEMORANDUM FOR: MARLA A. FREEDMAN
ASSISTANT INSPECTOR GENERAL FOR AUDIT
OFFICE OF INSPECTOR GENERAL

FROM: Sandra L. Pack
Pack
Assistant Secretary for Management
and Chief Financial Officer

SUBJECT: Office of the Inspector General (OIG) Draft Audit Report – "Treasury Communications Enterprise Procurement was Poorly Planned, Executed, and Documented" (December 20, 2005)

Thank you for the opportunity to reply to the subject report, *Treasury Communications Enterprise Procurement was Poorly Planned, Executed, and Documented* (December 20, 2005). The Department values your review and recommendations regarding the Treasury Communications Enterprise (TCE) project. I have directed that corrective actions be taken to address the recommendations in OIG's draft report, and a number of such actions are in process.

Your Report identifies legitimate concerns about the completeness and lack of organization of the documentation of the TCE business case and decisions of senior management officials with respect to TCE. These questions form the basis for many of the Report's findings and recommendations.

We agree that it is essential that the Department be able to provide the OIG with a cohesive and complete record of the TCE project. To remedy our own difficulties in accessing this information, as well as to meet the OIG's needs, we have undertaken to assemble a cohesive and complete set of TCE-related project management files in a single repository.

The Department also recognizes the importance of including in the project management or contract files, as appropriate, the documentation necessary to record senior management officials' deliberations and decisions. While the TCE contract files have complied with all requirements, and the project has had the full support of Treasury senior officials, who have been briefed regularly on TCE, we recognize that other supporting documentation does not consistently and clearly reflect senior management decisions to the extent necessary for management review and audit. We fully agree that "the approach taken should be thoroughly documented to support the decision made, and evidence approval by senior management." Hence, we have begun to document the decisions made by the appropriate senior officials in signed memoranda. These documents will be stored in the TCE project document repository mentioned above.

While we recognize that incomplete documentation can have important consequences, we do not believe that here it has prevented the Department from making the correct decision in selecting among the available alternatives to meet its telecommunications requirements. Going forward, to ensure that we are following industry best practices in managing this program, we have employed a consultant who specializes in large Federal IT acquisitions.

Treasury concurs with the IG recommendations contained in the draft report:

Recommendation 1: In light of the fact the Treasury has reopened the solicitation, ensure that Treasury considers all options before awarding the contract, including the option of canceling the solicitation. The approach taken should be thoroughly documented (i.e., with a sound business case) to support the decisions made and there should be evidence of approval by senior management. Appropriate consultation should be made with OMB and Congressional stakeholders about the decision made, with any concerns they may raise being fully and carefully considered.

Recommendation 2: If Treasury awards a contract under the TCE solicitation that provides for option periods, the contracting officer conducts a rigorous and defendable analysis in accordance with the FAR before any options are exercised to determine whether the option price is the more advantageous offer. The analyses should consider periods under available government-wide telecommunications contract vehicles. The analyses should also be fully documented in the procurement records.

Recommendation 3: In the future, ensure that planning and decision documents for major acquisitions (e.g., business cases, cost/benefit analyses of alternatives considered and the bases for those analyses, minutes or other records of key events, approval by senior leadership) are maintained in a manner to be readily available for management reference and review as well as for audit.

As you know, the TCE acquisition still is in process. To ensure the required protection of procurement-sensitive information, we request the opportunity to review your final report and other TCE-related information prior to your release of such information to anyone who, to date, has not been authorized officially to receive it[1]. We ask that you contact Bobby J. McCane in the IRS Procurement Office at (202) 283-1319, or via email at bobby.j.mccane@irs.gov so that he may identify for you any procurement-sensitive information contained in those documents before they are released.

[1] For example, the draft OIG report and management's comments both contain procurement-sensitive information including, but not necessarily limited to, the amount of the government's estimate.

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Moving forward, I would appreciate the OIG's assistance in reviewing our plans to address documentation and other deficiencies that have been identified with TCE. As I indicated in our conversation, TCE improvement will be an ongoing effort, and the OIG's specific reactions as we implement our corrective actions will be invaluable in ensuring that management has addressed effectively all legitimate concerns. To follow up on this and for any other questions, please contact Ira L. Hobbs, Treasury Chief Information Officer, at 202-622-1200.

3

Thomas E. Byrnes, Director, Manufacturing and Procurement Audits
Cynthia S. McKelvin, Audit Manager
Cedric Hammond, Sr., Program Manager
Ricardo Cabarrouy, Auditor
Gerald Kelly, Auditor
Esther M. Tepper, Writing Consultant
Delores Dabney, Referencer

The Department of the Treasury

Assistant Secretary for Management and Chief Financial Officer
Chief Information Officer
Assistant Secretary for Legislative Affairs
Assistant Secretary for Public Affairs
Director, Office of the Procurement Executive
Office of Accounting and Internal Control
Office of Strategic Planning and Performance Management

Internal Revenue Service

Director, IRS Procurement

Office of Management and Budget

OIG Budget Examiner