

**Cost Savings Can Be Achieved Through  
Improved Monitoring of the Treasury  
Communications System Contract**

**February 2000**

**Reference Number: 2000-10-028**

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

**Redaction Legend:**

10 = Trade Secrets or Commercial/Financial Information



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

February 15, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Cost Savings Can Be Achieved Through  
Improved Monitoring of the Treasury Communications System  
Contract

This report presents the results of our review of the internal controls for controlling the initiation, acceptance, and payment for the work done under the Treasury Communications System (TCS) contract.

In summary, the Internal Revenue Service (IRS) has taken corrective action to improve the performance of the TCS contract; however, we believe that continued improvements are needed in monitoring and administering the TCS contract. We recommended that the IRS perform an in-depth analysis on TCS invoices to identify billings for circuits and equipment that no longer exist. Also, the IRS should implement a process to ensure that it is receiving the appropriate credits when billing issues arise. Additionally, the IRS should impose appropriate invoice credits when the contractor does not meet established completion dates.

A draft of this report was sent to the IRS for a 30-day comment period on November 26, 1999. The Procurement and Information Systems organizations informed us that they would respond separately to the findings and recommendations in this report. We received a written response from Procurement operations on December 22, 1999. Procurement management agreed with the recommendations presented in the report and is taking appropriate corrective action to address the issues. Procurement management's comments have been incorporated into the report where appropriate, and the full text of their response is included as Appendix V. As of the date of this report, we had not received signed comments from the Information Systems organization.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at 202-622-8500.

**Cost Savings Can Be Achieved Through Improved Monitoring of the  
Treasury Communications System Contract**

---

**Table of Contents**

Executive Summary.....	Page i
Objective and Scope.....	Page 1
Background .....	Page 1
Results.....	Page 2
Additional Emphasis is Needed to Ensure the Proper Verification of Treasury Communications System Invoices .....	Page 3
Requests for Services Should Be Timely Completed.....	Page 6
Conclusion.....	Page 8
Appendix I – Detailed Objective, Scope, and Methodology.....	Page 9
Appendix II – Major Contributors to This Report.....	Page 11
Appendix III – Report Distribution List.....	Page 12
Appendix IV – Outcome Measures.....	Page 13
Appendix V – Management’s Response to the Draft Report – Response from Director of Procurement.....	Page 15

## **Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract**

---

### **Executive Summary**

The Treasury Communications System (TCS) contract was awarded to TRW, Inc. in September 1995 and this contractor took full control of managing the Department of the Treasury's communications network in August 1996. The TCS contract is for the design, implementation, management, operation, maintenance, and enhancement of a "worldwide" communications network for the Department and its bureaus. The TCS is the largest civilian centrally managed and secure network in operation today. In January 1999, the TCS served over 6,000 locations nationwide with approximately 150,000 users. The Internal Revenue Service (IRS) usage encompasses a significant portion of the contract.

The overall objective of this review was to assess the effectiveness of internal controls for controlling the initiation, acceptance, and payment for the work done under the TCS contract.

### **Results**

We found that the Department of the Treasury and the IRS have taken action to improve the administration of the TCS contract. The Treasury TCS Program Management Office and several IRS employees were co-located with the contractor in order to manage the contract better and be more effective in resolving problems. During June through December 1998, the Contracting Officer assessed approximately \$170,000 in credits on the billing invoices when the contractor failed to timely complete the work requests. Additionally, the IRS removed, from monthly maintenance, equipment that was located at the TCS warehouse and not in use, which saved approximately \$114,000 a month in maintenance costs. While much progress has been made, we identified the following additional opportunities for improvements in monitoring and administering the TCS contract.

### **Additional Emphasis is Needed to Ensure the Proper Verification of Treasury Communications System Invoices**

The IRS is not properly verifying invoices for the TCS contract to ensure that all costs are appropriate. We identified approximately \$633,000 in questionable or unnecessary costs for circuits and equipment maintenance. These charges will cost the IRS approximately \$5.5 million over 5 years, using a present value factor that assumes the maintenance costs increase by 2 percent each year and a federal funds rate of 5 percent. We questioned these costs because we could not locate the circuits or equipment, could not identify the specific piece of equipment during our site verifications, or found the charges were for

## **Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract**

---

sites no longer occupied by the IRS. Additionally, the IRS is paying approximately \$13,000 a month for maintenance of metal cabinets and racks. These charges will cost the IRS approximately \$720,000 over 5 years, using a present value factor that assumes the maintenance costs increase by 2 percent each year and a federal funds rate of 5 percent. We believe these are unnecessary charges and all equipment of this type should be removed from maintenance coverage. When we brought these problems to the attention of program personnel, they told us there were not enough resources to perform a complete verification of the invoices each month. However, because of the problems identified during our audit and the cost savings associated with them, we believe the IRS needs to more aggressively monitor and verify its portion of the TCS costs.

### **Requests for Services Should Be Timely Completed**

While some improvement has been made, the contractor is still, on average, completing service requests 75 days after the IRS' requested operational dates. We noted that the delays in completing service requests have cost the IRS additional maintenance charges of approximately \$55,000. To assist in completing new requests, the IRS has implemented a process where the requests are prioritized. Additionally, during June through December 1998, the IRS implemented a penalty system in which it credited the contractor's invoices when service requests were not completed by the agreed to date. Procurement officials informed us they believe the invoice credits brought emphasis to the issue and the Government received the performance improvement it wanted. However, we believe continued improvement is necessary because delays in completing service requests could negatively affect the IRS' operations and hinder its tax processing activities.

### **Summary of Recommendations**

We believe that Information Systems management should ensure that an in-depth analysis is performed on TCS invoices to identify billings for circuits and equipment that no longer exist. Also, a process should be implemented to ensure that the IRS is receiving the appropriate credits when billing issues arise. Additionally, Procurement management should ensure that appropriate invoice credits are imposed when the contractor does not meet established completion dates.

Management's Response: The Director of Procurement indicated IRS management is working with Treasury representatives and the contractor to create an invoice that is easier to verify. In addition, the IRS has switched to a cost-plus-award-fee arrangement that will allow the contractor to earn a higher fee for improved performance. If this incentive method does not work, IRS management will reconsider imposing invoice credits.

## **Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract**

---

Office of Audit Comment: As of the date of this report, the Information Systems organization had not responded to our November 26, 1999, request for written comments on the findings and recommendations contained in a draft of this report.

## Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract

---

### Objective and Scope

*The overall objective of this review was to assess the effectiveness of internal controls for controlling the initiation, acceptance, and payment for the work done under the TCS contract.*

The overall objective of this review was to assess the effectiveness of internal controls for controlling the initiation, acceptance, and payment for the work done under the Treasury Communications Systems (TCS) contract. Our scope included only the delivery order and costs associated with the TCS infrastructure at the Internal Revenue Service (IRS). The audit work was performed from February through August 1999, at the IRS Procurement office in Oxon Hill, Maryland and selected offices in the Delaware/Maryland District; Philadelphia Service Center; Martinsburg Computing Center; Tennessee Computing Center; and selected Headquarter sites within the Washington, DC area. This audit was performed in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

### Background

The TCS contract is for the design, implementation, management, operation, maintenance, and enhancement of a “worldwide” communications network for the Department of the Treasury and its bureaus. The TCS is the largest civilian centrally managed and secure communications network in operation today. In January 1999, the TCS served over 6,000 locations nationwide with approximately 150,000 users. The IRS usage encompasses a significant portion of the contract.

TRW, Inc. was awarded the TCS contract in September 1995 and took full control of managing the network in August 1996. The TCS contract is a 10-year Indefinite Delivery/Indefinite Quantity Firm Fixed Price contract. This type of contract establishes the price of supplies and services at the onset of the contract and



## Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract

---

allows the Government to acquire an indefinite quantity, within stated limits, with performance to be scheduled by placing orders against the contract. The IRS is responsible for administering the contract for the Department of the Treasury.

### Results

The Department of the Treasury and the IRS have taken action to improve the administration of the TCS contract. For example, the Treasury TCS Program Management Office is co-located with the contractor to better manage the contract. Several IRS employees are also located at the contractor's site to more effectively handle any problems that arise. To improve contractor performance, credits were taken against contractor invoices during June through December 1998, when the contractor failed to timely complete work requests. The contracting officer assessed approximately \$170,000 in credits during this period.

Additionally, the IRS had identified some other areas where it could realize cost savings. For example, the IRS had been paying for monthly maintenance for equipment located at the TCS warehouse that was not in use. In June 1999, the IRS submitted to the contractor the necessary paperwork to remove this equipment from maintenance, saving approximately \$114,000 monthly.

*While enhancements have improved contractor responsiveness and performance, continued improvements are needed in monitoring and administering the TCS contract.*

While enhancements in the management and administration of the contract have improved contractor responsiveness and performance, we identified some additional opportunities for improvements in monitoring and administering the TCS contract. Specifically,

- Additional emphasis is needed to ensure the proper verification of TCS invoices.
- Requests for services should be timely completed.

## Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract

---

### Additional Emphasis is Needed to Ensure the Proper Verification of Treasury Communications System Invoices

---

---

*We identified approximately \$633,000 in questionable or unnecessary costs for circuit and equipment maintenance.*

The IRS is not properly verifying invoices for the TCS contract to ensure that all costs are appropriate. We identified \$633,000 in questionable or unnecessary charges for circuit and equipment maintenance. These charges will cost the IRS approximately \$5.5 million at the present value for the next 5 years. See Appendix IV for details of our calculations.

At 14 IRS locations, we performed physical verifications of the equipment and circuits included on the August 1998 through January 1999 TCS invoices. The IRS portion of the January 1999 TCS invoice totaled approximately \$3.4 million. The 14 sites represented approximately \$272,000 of the January 1999 invoice. The overall questioned maintenance charges would likely be significantly higher if the other IRS sites had similar questioned or unnecessary costs.

We questioned the equipment and circuit charges because:

- We could not locate the circuits and equipment that were billed to the IRS.
- We could not identify components associated with the equipment.
- The equipment identification was listed as not available, making it impossible to ensure the charges were valid.
- The equipment was listed at sites the IRS no longer occupies. The IRS moved from these sites as early as June 1997 and, through July 1998, had paid approximately \$108,000 in unnecessary maintenance costs.

## Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract

---

*The IRS is paying approximately \$13,000 a month for maintenance of metal cabinets and racks.*

Additionally, we reviewed the IRS portion of the contractor's invoice for January 1999 and identified various metal cabinets and racks that are covered under monthly maintenance. In Fiscal Year 1999, the IRS was billed either 10 or 10 a month for each metal cabinet and rack. The total cost for the month of January 1999 was approximately \$13,000. Based on present value analysis, the IRS will pay approximately \$720,000 for the next 5 years for maintenance on metal cabinets and racks. In our opinion, metal cabinets and racks do not require monthly maintenance, and all equipment of this type should be removed from maintenance coverage under the TCS contract.

Contract Administration guidelines stipulate that the Contracting Officer's Technical Representative is responsible for reviewing and certifying the contractor's invoice for payment. Because the TCS contract is a Treasury-wide contract, each of the Treasury bureaus is responsible for reviewing and certifying its portion of the invoice. The Network Services Branch within the Office of Information Systems performs this function for the IRS.

The Network Services Branch sends the invoices to the TCS Coordinators located at various IRS sites for verification. In order to meet the Prompt Payment Act, 31 U.S.C. §§ 3901-3907, the invoices are sent to the Department of the Treasury after the certification for payment has been provided. Even though these verifications are performed after the payment is certified, there is a process in place for the IRS and other users of the TCS contract to receive credits for improper charges.

However, the Network Services Branch has not consistently sent the invoices to the TCS Coordinators, and not all of the TCS Coordinators have forwarded the invoices to the appropriate sites for verification. Additionally, while some of the Coordinators do perform a thorough verification of the invoices and forward the information about improper charges to the

## Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract

---

*We believe aggressively monitoring and verifying the TCS costs could result in significant cost savings.*

Network Services Branch for processing, no one verifies that the IRS receives the appropriate credits from the contractor.

Standards for an adequate system of internal control provide for activities such as verification and reconciliation of transactions. However, IRS representatives told us there are not enough available resources to perform a complete verification of the invoices each month. Invoice charges are not listed in a consistent order from month to month and new charges are not separated from the prior month's charge, which means the entire invoice must be thoroughly reviewed each month.

The IRS could realize significant cost savings by detecting and resolving errors and inappropriate charges in the contractor's invoices and by following up to ensure appropriate credits are given by the contractor.

### Recommendations

1. Information Systems management should ensure that TCS Coordinators and other appropriate personnel perform an in-depth analysis of an IRS TCS invoice to identify billings for circuits and equipment that no longer exist at the IRS site. After this original analysis, the TCS Coordinators should review and monitor the invoices continuously.
2. To facilitate the review process, Procurement and Information Systems management should request that the Treasury TCS Program Management Office work with the contractor to create an invoice that is easier to verify.

Management's Response: Representatives from Procurement, Treasury Corporate Systems Management, and the contractor met to discuss the recommendation to create an invoice that is easier to verify. The TCS Billing Working Group, which includes representatives from all Treasury bureaus, must meet to design and implement a permanent solution for use Treasurywide.

## Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract

---

3. Network Services management should implement a process to follow up on billing resolution issues to ensure that the IRS is receiving the appropriate credits.

Office of Audit Comment: As of the date of this report, the Information Systems organization had not responded to our November 26, 1999, request for written comments on the findings and recommendations contained in a draft of this report.

---

### Requests for Services Should Be Timely Completed

---

*Our analysis showed the contractor is still, on average, completing service requests 75 days after the IRS' requested operational dates.*

Improvements are needed to ensure the contractor timely completes service requests. While some improvements have been made, our analysis of 96 service requests completed during September 1998 through May 1999 showed the contractor is still, on average, completing service requests 75 days after the IRS' requested operational dates.

We noted that the delays have cost the IRS additional maintenance costs. For example, the Martinsburg Computing Center submitted a service request adding several routers to monthly maintenance. However, because the request was not timely completed, the local procurement office awarded a contract to another contractor for maintenance coverage on the routers. Subsequently, the routers were also added to the TCS contract. As a result, the IRS paid two contractors for the same maintenance coverage. This additional contract cost the IRS approximately \$55,000 for Fiscal Year 1999.

When the TCS Coordinators recognize a need for services from the TCS contract, they complete a service request explaining what the requirements are, where the work needs to be performed, and when it needs to be completed. These requests are then forwarded to the Wide Area Network Section in the National Office for processing.

## **Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract**

---

At the beginning of the current contract, the contractor inherited a large number of uncompleted service requests from the prior TCS contractor. Additionally, according to IRS management and a Treasury Program Management official, the IRS and other users of the TCS contract had been significantly underestimating the number of service requests each year. These two situations played a role in creating a backlog that has prevented the contractor from timely completing the TCS workload.

Because of the backlog, the IRS implemented a process where requests are prioritized to assist in timely completing new and backlogged service requests. Only urgent requests are forwarded to the contractor. The other service requests are delayed until they either become a priority or the contractor has time to complete them.

Additionally, as previously mentioned, to place emphasis on the timely completion of service requests, during June through December 1998 the IRS implemented a penalty system in which the Government received credits if TRW, Inc. did not complete service requests by the agreed to date. Procurement officials informed us they believe that the credits assessed against the contractor's invoices brought emphasis to the issue and the Government received the performance improvement it wanted.

The Contracting Officer advised that the contractor is currently working under a "Best Effort" performance level. Our comparison of service requests completed for the 14 sites included in our review for August 1996 through August 1998, and all IRS service requests completed for September 1998 through May 1999, showed timeliness improved by 69 days. However, we believe further improvement is necessary to eliminate the remaining delays. Not completing these requests timely could affect the IRS' operations and hinder tax processing.

## Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract

---

### Recommendations

4. Information Systems management should work with the contractor to determine realistic estimates on future service requests.
5. Procurement management should hold the contractor accountable for work not completed under the terms of the contract and reconsider using the penalty system that allowed the IRS to receive appropriate credits when work was not timely completed.

Management's Response: The IRS switched to a cost-plus-award-fee arrangement that allows the contractor to earn a higher fee for improved performance. If this incentive method does not work, IRS management will reconsider the use of the credit system.

### Conclusion

Improvements are needed in the monitoring and administering of the TCS contract. The IRS could realize significant cost savings by aggressively verifying TCS costs. During our review, we identified approximately \$701,000 in questionable or unnecessary costs.

## Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract

---

### Appendix I

#### Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the effectiveness of internal controls for controlling the initiation, acceptance, and payment for the work done under the Treasury Communications System (TCS) contract. To accomplish this objective, we:

- I. Determined whether invoices were properly verified and payments were accurate and appropriate.
  - A. Selected a judgmental sample of Internal Revenue Service (IRS) locations from invoices for August 1998 to January 1999 that were submitted by the contractor to the IRS. The 14 sites selected were the following:
    - Delaware/Maryland District Office sites: 31 Hopkins Plaza, Baltimore, MD; 200 St. Paul Place, Baltimore, MD; 6 St. Paul Street, Baltimore, MD; 100 Charles Street, Baltimore, MD; 103 S. Gay Street, Baltimore, MD; 300 Lexington Street, Baltimore, MD; 10461 Mill Run Circle, Owings Mills, MD; and 500 N. Capital Street, NW, Washington, DC
    - Headquarters sites: 7201 Wisconsin Avenue, Bethesda, MD; New Carrollton Federal Building, 5000 Ellin Road, New Carrollton, MD; and Ariel Rios Federal Building, 1200 Pennsylvania Avenue, NW, Washington, DC
    - Philadelphia Service Center, 11601 Roosevelt Blvd, Philadelphia, PA
    - Tennessee Computing Center, 5333 Getwell Road, Memphis, TN
    - Martinsburg Computing Center, 145 Murall Drive, Kearneysville, WV
  - B. For locations selected:
    1. Determined whether all charges on the invoices were accurate and appropriate. If inappropriate charges were identified, determined the cost savings to the IRS.
    2. Determined if rates/costs specified in the contract agreed with rates/costs included on the invoices.
  - C. Interviewed Contracting Officer Technical Representatives and other personnel involved in the contract to establish practices for receipt and acceptance of goods and services.



## **Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract**

---

- II. Determined whether the contractor was in compliance with all applicable contract terms and the IRS properly received and accepted the deliverables included in the contract.
  - A. Selected a judgmental sample of IRS locations and identified the deliverables for these sites for August 1998 through January 1999.
  - B. Reviewed the contract files to obtain a schedule of due dates and criteria for acceptance/rejection of deliverables selected.
  - C. Determined whether the deliverables met the requirements of the contract to ensure they were appropriately accepted.
  - D. Determined the date the deliverables were received and determined whether the contractor met deliverable due dates specified in the contract.
  - E. Interviewed employees involved in the contract to establish the level of satisfaction with contractor performance.
  
- III. Determined whether the contract was properly administered.
  - A. Interviewed procurement officials to determine the lines of responsibility between the Department of the Treasury and the IRS regarding the administration of the TCS contract.
  - B. Reviewed TCS contract files to determine whether proper organization and the appropriate documentation was maintained.
  - C. Determined if contract modifications were necessary and adequately justified and evaluated any changes in scope of work.
  - D. Obtained documentation from the TCS coordinator meetings to determine whether issues raised had been resolved and appropriately documented.

**Cost Savings Can Be Achieved Through Improved Monitoring of the  
Treasury Communications System Contract**

---

**Appendix II**

**Major Contributors to This Report**

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

John Wright, Director

Nancy LaManna, Audit Manager

Debbie Gregory, Senior Auditor

Calvin Thomas, Senior Auditor

Thomas Dori, Auditor

Pete Stoughton, Auditor

**Cost Savings Can Be Achieved Through Improved Monitoring of the  
Treasury Communications System Contract**

---

**Appendix III**

**Report Distribution List**

Deputy Commissioner Operations C:DO  
Chief, Agency-Wide Shared Services A  
Chief Information Officer IS  
Director, Office of Program Evaluation and Risk Analysis M:OP  
Director of Procurement A:P  
National Director for Legislative Affairs CL:LA  
Office of the Chief Counsel CC  
Office of Management Controls M:CFO:A:M

Audit Liaison – Director of Procurement A:P

**Cost Savings Can Be Achieved Through Improved Monitoring of the  
Treasury Communications System Contract**

---

**Appendix IV**

**Outcome Measures**

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Findings and recommendations:

- Additional emphasis is needed to ensure the proper verification of Treasury Communications System (TCS) invoices (see page 3).
- Requests for services should be timely completed (see page 6).

Type of Outcome Measure:

- Cost savings (questioned costs or recommendations that funds be put to better use) – Potential outcome

Value of the Benefit:

<b>Description of Questioned/ Unnecessary Cost</b>	<b><u>Amount</u></b>	<b><u>Recurring</u></b>	<b><u>Present Value</u></b>
1. Circuit and equipment maintenance charges for 6-month period on items not located, components not identified, or no equipment identification reflected.	\$525,000	Yes	\$5,400,000
2. Previous equipment maintenance charges at sites no longer occupied by the Internal Revenue Service (IRS).	108,000	No	108,000
3. Maintenance for metal cabinets and racks for 1 month.	13,000	Yes	720,000
4. Paying two contractors for the same maintenance coverage in Fiscal Year 1999.	<u>55,000</u>	No	<u>55,000</u>
<b>TOTALS:</b>	<b><u>\$701,000</u></b>		<b><u>\$6,283,000</u></b>

## **Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract**

---

### Methodology Used to Measure the Reported Benefit:

1. To establish the questionable or unnecessary costs, we performed physical verifications of the equipment and circuits included on the TCS invoices from August 1998 through January 1999 for 14 IRS locations included in our scope of review. The present value was calculated by using the questioned costs of approximately \$98,000 identified on the January 1999 invoice (the latest invoice in our scope with recurring charges) and included the contractual increases for maintenance costs of 2 percent each fiscal year and the current federal funds rate of 5 percent for a 60-month period.
2. To establish the monies paid for equipment listed at sites the IRS no longer occupies, we reviewed monthly invoices and calculated the costs incurred from 2 months after the space was vacated until July 1998.
3. To establish the monies paid for maintenance charges for metal cabinets and racks, we reviewed the January 1999 invoice and calculated the costs for these metal cabinets and racks. The present value was calculated based on the contractual increases for maintenance costs of 2 percent each fiscal year and the current federal funds rate of 5 percent for a 60-month period.
4. To establish the monies paid for duplicate maintenance coverage, we reviewed documentation provided by the TCS Coordinator at the Martinsburg Computing Center and noted the duplicate cost for the router maintenance.

Cost Savings Can Be Achieved Through Improved Monitoring of the  
Treasury Communications System Contract

---

Appendix V

Management's Response to the Draft Report – Response From Director Of  
Procurement



COMMISSIONER

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

December 22, 1999

MEMORANDUM FOR DAVID C. WILLIAMS  
TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

FROM: Charles O. Rossotti *CON*  
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report - Cost Savings Can Be Achieved  
Through Monitoring of the Treasury Communications  
System Contract (#19990050)

Attached are corrective actions for recommendations 2 and 5 of the above report. Corrective actions for recommendations 1, 3 and 4 will be addressed by the Information Systems (IS) organization under separate cover. The IS response will also address recommendation two.

Your staff may contact James A. Williams, Director, Procurement, at (202)622-8480, or his Acting Executive Assistant, Donna Craver, at (202)283-1122 for additional information.

Attachment(s)

## Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract

---

2

### Recommendation No. 2:

To facilitate the review process, Procurement and Information Systems management should work with the contractor to create an invoice that is easier to verify.

### Assessment of Cause:

Invoice charges are not listed in a consistent order from month to month and new charges are not separated out from the prior month's charges.

### Corrective Action:

Representatives from Procurement, the Treasury Corporate Systems Management staff, and the contractor (TRW) met on December 8, 1999, to discuss this issue. We must now meet with the Treasury Communications System (TCS) Billing Working Group, which includes representatives from all Treasury bureaus, to design and implement a permanent solution for use Treasurywide. We are also pursuing the expanded use of electronic methods to verify invoices and to search and delete items from maintenance coverage, as appropriate.

### Implementation Date:

March 1, 2001.

### Responsible Official:

Director, Procurement

### Recommendation No. 5:

Procurement management should hold the contractor accountable for work not completed under the terms of the contract and reconsider using the penalty system that allowed the IRS to receive credits when work was not timely completed.

### Assessment of Cause:

TRW inherited a large number of uncompleted service requests from the previous contractor. In addition, users of the TCS contract have submitted significantly more service requests than originally anticipated, sometimes exceeding the estimated contract maximums.

## Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract

---

3

Corrective Action:

Though use of credits for late contractor performance (referred to as a "penalty system" in the report) resulted in improved delivery, the process of determining those credits was extremely labor intensive. As a result, we switched to a cost-plus-award-fee arrangement, effective October 1, 1999. The award fee will allow TRW to earn a higher fee for improved performance. If this method of motivating the contractor does not work, we will reconsider use of the credit system. (NOTE: Use of actual "penalties" is unenforceable under the law.)

Implementation Date:

Completed: October 1, 1999

Responsible Official:

Director, Procurement