REVIEW OF FUNDING AND MANAGEMENT
CONTROLS OVER THE INTEGRATED
ACQUISITION ENVIRONMENT,
FEDERAL ASSET SALES,
AND E-TRAVEL E-GOV INITIATIVES
REPORT NUMBER A040139/F/6/F05018
MARCH 7, 2005

Agency officials who receive requests to release this report to anyone outside of the General Services Administration should refer the requestor to the Office of Inspector General, Office of Counsel – Freedom of Information Officer.

REVIEW OF FUNDING AND MANAGEMENT CONTROLS
OVER THE INTEGRATED ACQUISITION ENVIRONMENT,
FEDERAL ASSET SALES, AND E-TRAVEL E-GOV INITIATIVES
REPORT NUMBER A040139/F/6/F05018

TABLE OF CONTENTS

Date : March 7, 2005

Subject : Review of Funding and Management Controls Over the Integrated Acquisition
          Environment, Federal Asset Sales, and E-Travel E-Gov Initiatives
          Report Number A040139/F/6/F05018

To   : Donna D. Bennett
          Commissioner, Federal Supply Service (F)

          Michael W. Carleton
          Chief Information Officer (I)

This report presents the results of our review of the Integrated Acquisition Environment
(IAE), Federal Asset Sales (FAS), and e-Travel electronic government initiatives. This
review, which did not extend beyond the survey phase, was included in the Office of
Inspector General's annual audit plan for FY 2004, primarily at the request of FSS. The
survey focused on funding and management controls, because those were the areas
that FSS asked us to include in the scope of our survey.

During our survey, we found that GSA's Office of General Counsel researched whether
the General Supply Fund could be used to pay for all or part of the development of the
IAE, e-Travel, and FAS E-Gov initiatives. Except for the real property portion of FAS,
they determined that it is legally acceptable to use the General Supply Fund for this
purpose. Some agencies have paid a portion of E-Gov development costs. IAE has
been particularly successful in obtaining funding participation during the development
stage. However, the Department of Defense wanted to reduce the amount they agreed
to pay in FY 2004 for development of the IAE initiative.   This action appears to validate
FSS fears that agencies would not honor their signed Memorandums of Understanding.

For the projects that used FSS funds for development, it would have seemed
reasonable/logical to place responsibility for development and management decisions
(those impacting cost, timeliness, and scope) with the part of the organization that was
providing funding. In addition, we found that the most significant project management
issues were beyond the control of the Program Management Office. However, the
Administrator chose a matrix approach, and it is not clear that realigning responsibility
would have improved the timeliness or reduced the cost of the initiatives.

Project Managers for the three initiatives have considered how to fund their operations
after the development stage is complete. The Project Manager for e-Travel has

1

proposed that the e-Travel fee not include an amount for program overhead costs until FY 2007. The Project Manager for the IAE plans to continue their current fee calculation and collection procedure. However, as noted above, there appears to be a legitimate concern about whether agencies will honor their funding agreements with IAE. Calculating the FAS fee will be difficult since a vendor protest was upheld and there is continuing uncertainty surrounding the expected sales volume. We expect that the program offices, Sponsors, and FSS will adjust the fees after implementation based on actual costs and transaction volumes.

Because the report contains no recommendations, a response is not required. If you have any questions or would like additional information regarding the report, please contact John Pollock or me at 816-926-7052.

Arthur L. Elkin
Regional Inspector General for Auditing
Heartland Region

REVIEW OF FUNDING AND MANAGEMENT CONTROLS
OVER THE INTEGRATED ACQUISITION ENVIRONMENT,
FEDERAL ASSET SALES, AND E-TRAVEL E-GOV INITIATIVES
REPORT NUMBER A040139/F/6/F05018

INTRODUCTION

Background

Implementing electronic government is a key element in the President's Management Agenda. On July 18, 2001 the Office of Management and Budget (OMB) issued Memorandum M-01-28 that established the Electronic Government Task Force. The President's Management Council adopted the recommendations of this task force when it approved the 23 electronic government initiatives[1] on October 3, 2001.

Three of the initiatives that were assigned to GSA were Integrated Acquisition Environment (IAE), Federal Asset Sales (FAS), and e-Travel. These initiatives were funded in whole or in part from the General Supply Fund (GSF), a revolving fund of GSA's Federal Supply Service (FSS) that is funded through user fees. In FY 2005, e-Travel is expected to move to FSS, IAE is expected to move to GSA's Office of the Chief Acquisition Officer, the real property portion of FAS is expected to move to GSA's Public Buildings Service, the personal property portion of FAS is expected to move to FSS, and ongoing development of utilization and donation policies will be considered by Office of Governmentwide Policy.

The IAE initiative is charged with (1) creating a simpler, common, integrated business process for buyers and sellers that promotes competition, transparency and integrity; (2) increasing data sharing to enable better business decisions in procurement, logistics, payment, and performance assessment; and (3) taking a unified approach to obtain modern tools to leverage investment costs for business related processes. The mission of FAS is to develop a secure, effective, and efficient one-stop online environment that provides clear information and a marketplace for buyers and sellers of Federal assets. E-Travel goals are to (1) develop a Government-wide, web-based, world-class travel management service, (2) establish a cost model that reduces or eliminates capital investment and minimizes total cost per transaction for the Government, and (3) create a policy environment based on the use of best travel management policies.

Survey Objective, Scope and Methodology

Our survey objective was to identify and evaluate funding and management controls over the IAE, FAS, and e-Travel electronic government initiatives. We decided not to advance beyond the survey phase of the review.

---

[1] The number was subsequently increased to 25 initiatives with the addition of the e-Payroll initiative and the separation of e-Clearance from the Integrated Human Resources initiative.

To accomplish the objective of our survey, we:

1. Met with the FSS Commissioner and the FSS Controller to understand their concerns, since they requested this project.
2. Held discussions with the following individuals and obtained documentation related to funding decisions and/or management controls: FSS Controller and his staff, Sponsors, Project Managers, project team members, GSA's E-Gov Program Manager, GSA's Office of General Counsel, Counsel to the Inspector General, and GSA's Office of the Chief Financial Officer.
3. Attended a session about FSS' personal property e-solution at the 2004 GSA Expo.
4. Attended sessions at the National Travel Forum 2004 that dealt with e-Travel, including demonstrations of the systems offered by Northrup Grumman, CW Government Travel, and EDS.
5. Reviewed public laws and OMB Circulars.
6. Reviewed reports by the Government Accountability Office (GAO) and Federal CIO Council that provide guidance for information technology projects.
7. Reviewed GAO reports that document their oversight of the electronic government initiatives.
8. Reviewed the President's Management Agenda and documentation related to selection of the initiatives by Quicksilver and the President's Management Council.

The review was conducted in accordance with generally accepted Government auditing standards that are applicable to the survey phase of a performance audit.

RESULTS OF SURVEY

<u>Brief</u>

GSA's Office of General Counsel researched the issue of using the GSF to pay for all or part of the development of the IAE, e-Travel, and FAS E-Gov initiatives. Except for the real property portion of FAS, they determined that it is legally acceptable to use the GSF for these three E-Gov initiatives. We have no basis to challenge their determination. Some agencies have paid a portion of E-Gov development costs. IAE has been particularly successful in obtaining funding participation during the development stage. However, the Department of Defense was seeking to reduce the amount they agreed to pay in FY 2004 for development of the IAE initiative.   This action appears to validate FSS fears that agencies would not honor their signed Memorandums of Understanding.

For the projects that used the GSF for development, it would have been reasonable/logical to place responsibility for development and management decisions (those impacting cost, timeliness, and scope) with the part of the organization that funded the initiatives. However, the Administrator chose a matrix approach in which project management experts developed the initiatives with input from OMB, industry, high level GSA management, and user agencies. While some of the E-Gov projects will cost more, take longer, and achieve less than originally envisioned, it is not clear that realigning responsibility would have impacted these outcomes. Numerous individuals are involved in the E-Gov projects, but it seems widely understood that (1) the line of authority runs from the Administrator to the Sponsors to the Project Managers, with others (including the E-Gov Program Manager, GSA Chief Financial Officer, FSS Controller, GSA Executive Committee, OMB, etc.) providing advice and assistance and (2) the Administrator will ultimately hold the Sponsors accountable for the success or failure of the initiatives. Based on discussions with project teams and the E-Gov Program Manager and review of limited documentation, there appears to be adequate planning, review, approval, reporting, tracking, and separation of duties at the transaction level.

Project Managers for the three initiatives have considered how to fund their operations after the development stage is complete. The Project Manager for e-Travel has proposed that fees do not include an amount for program overhead costs until FY 2007. The Project Manager for IAE expects that their current fees and collection mechanism will continue, but as noted above, there appears to be a legitimate concern regarding whether agencies will honor their funding agreements. Calculating the FAS fee will be difficult since GAO recently upheld a vendor protest and there is continuing uncertainty surrounding the expected sales volume. We understand that all fees can be adjusted after implementation based on actual costs and transaction volumes.

<u>Use of the General Supply Fund</u>

It appears that GSA's Administrator made the decision to use the GSF for part or all of the development costs of the IAE, FAS, and e-Travel initiatives after consultation with numerous parties, including Sponsors, the E-Gov Program Manager, OMB, FSS Office of the Controller, Office of the Chief Financial Officer, etc. Further, the discussion continued even after the decision was made. We have no basis to question the Administrator's determination.[2]

In November 2001, the FSS Office of the Controller asked a Supervisory General Attorney in GSA's Office of General Counsel whether it would be permissible to use the GSF for Government-wide initiatives. The attorney indicated the circumstances under which the Federal Property and Administrative Services Act of 1949, as amended, permitted use of the GSF, but said he did not know enough about the intended use of the initiative to make a specific determination.

In April 2003, in response to queries from GSA's Office of the Chief Financial Officer, a General Attorney in GSA's Office of General Counsel, issued an "informal memo" that further discussed the issue. It concluded that IAE, e-Travel, and the personal property portion of FAS could be funded from the GSF, but that the real property portion of FAS would need to be funded another way (possibly from the Federal Buildings Fund "in the proportion of its anticipated use of the initiative"). It also documented other acceptable funding options, including using the Working Capital Fund for e-Travel, using an appropriation for policy and citizen services for FAS and IAE, using an appropriation for Government-wide activities associated with utilization and donation of surplus property and disposal of real property for FAS, and using Section 629 money and/or the E-Gov Fund for the E-Gov initiatives.

<u>Management Controls</u>

Based on our survey work, it appears that controls have generally been adequate to ensure that the projects have progressed, costs have been reviewed, and problems have been discussed appropriately with stakeholders. It is unclear whether controls could have been enhanced with a different organizational structure, because it is difficult to evaluate the path not taken.

GSA's E-Gov Program Manager and the FSS Controller would each have preferred more line authority over the projects, but it is not clear that either change would in and of itself have led to expedited development or reduced costs. One Sponsor didn't feel like she had enough control over her project, but this appears to have been an unavoidable anomaly because the scope of the project encompassed non-GSA systems. It appears that the Project Manager for this initiative and the E-Gov Program

---

[2] In April 2003, GSA's Office of General Counsel advised GSA's CFO that it would not be correct for the GSF to pay the development costs of the real property portion of FAS. Accordingly, PBS agreed to pay $1 million of FAS development costs.

Management Office kept the Sponsor apprised of initiative progress and problems as well as possible, by, for example, providing periodic briefings, including her in the review process for the annual Business Cases, and including her signature on Memorandums of Understanding and Memorandums of Agreement.

An anomaly of these projects is that because they were part of the President's Management Agenda and were assigned by the OMB, GSA officials did not feel like they could refuse a project, even if a project did not appear to have wide customer support. Another anomaly of these projects is that the OMB has taken an active role in their management. While this provides an additional control, in the case of FAS, it led to a scope revision that the project development team believes increased the time and cost of the project.

Absent the authority to cancel or defer a project until solutions for major barriers could be found, we believe that controls have generally been adequate to ensure that these system development projects are planned and progressing toward a conclusion in an organized way and problems are highlighted and discussed by appropriate individuals. Further, based on procedures described to us by the project development teams and GSA's E-Gov Program Manager and limited reviews of documentation, there appears to be adequate procedures for processing Business Cases, purchases requests and payments.

We noted that many of the tenets set forth in GAO's Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1, dated November 1999) and in GAO reports that discuss system development projects were followed. For example, a committee selected projects after reviewing data about cost, risks, and potential benefits. GSA's Administrator demonstrated senior management commitment, established a full-time Program Management Office to coordinate development activities, determined that each initiative should have a full-time project manager, identified a funding source for development of the initiatives, and he and other GSA managers obtain regular briefings. In addition, Charters were developed to document, among other things, the scope of the project and the organizational structure, and the project development teams annually prepare Business Cases for review by senior GSA management and the OMB. The Business Cases contain descriptions of the projects, identify risks and mitigation strategies, state assumptions, identify costs and benefits, and evaluate alternative solutions, as recommended by the GAO reports.

Despite following many of GAO's guidelines and having a great deal of interest and scrutiny, some interesting developments have occurred with the E-Gov initiatives:

Funds Control Issues

- Even though the GSF is being used to pay in whole or in part for development of these three initiatives, the FSS Office of the Controller is not vested with the authority to make decisions regarding the amount of

7

GSF money that is spent on the initiatives. This was a prime concern of the FSS Office of the Controller and the FSS Commissioner. We understand their concern, because it would generally seem logical and reasonable for FSS to have control over the projects paid for with the GSF. However, mitigating controls include oversight by the OMB, Sponsors, GSA's E-Gov Program Manager, and Project Managers, and regular briefings of various GSA management officials.

- The Sponsors, rather than the E-Gov Program Manager, were assigned financial and management authority, and the E-Gov Program Manager was not assigned a Government funds control person. The E-Gov Program Manager believes this weakened controls, particularly over charge card purchases. However, he developed controls over project development and expenditures that appear to compensate for this potential weakness. For example, he hired a private sector funds control person, prohibited the Project Managers from using charge cards for most development costs after the first year, and worked with the Office of the Chief Financial Officer to develop ad hoc Pegasys reports. He keeps a log that shows information regarding purchase requests, reviews purchase requests to ensure that they are within the scope of the project, reviews draft Business Cases, receives periodic progress updates from the Project Managers, etc.

- Some agencies have paid a portion of the development costs for these initiatives. IAE has been particularly successful in obtaining funding participation during the development stage. IAE has formalized agency commitments through Memorandums of Understanding that have been signed by officials from GSA and the customer agency. The FSS Commissioner and the FSS Controller have expressed concern that agencies will not meet the obligations outlined in their signed Memorandums of Understanding or might seek to reduce their funding level if appropriations become tight. Their concerns appear to have validity, because the Department of Defense wanted to reduce the amount they agreed to pay in FY 2004 for development of the IAE initiative.

Management Issues Related to Project Progress

- In some cases, the Sponsors were given responsibility for projects that included issues that were outside of their normal areas of expertise. For example, two Public Buildings Service officials with real estate expertise were designated the Sponsor and Project Manager of FAS, but a large part of this initiative's resources have been spent developing a solution for selling personal property. FSS was designated the Sponsor for IAE, but this initiative includes systems that are not FSS systems. While additional subject matter expertise would have been beneficial, project management

seems to be the dominant skill necessary for successfully concluding these projects. In addition, in the case of FAS, a GSA personal property expert was assigned to the initiative.

- OMB assigned the three projects to GSA and provides oversight. While OMB's participation can enhance oversight and control, some GSA officials believe that it has also increased the time and cost of development. For example, when FAS had been under development for about a year, OMB directed that FAS include utilization and donation, in the scope of their project, in addition to sales. Further, there was debate between OMB and the project team about whether FAS should include financial assets. Ultimately, financial assets were deleted from the scope of the project.

- The Acting Director of FSS' Property Management Division advised us in May 2004 that when FSS absorbs the personal property aspect of FAS, FSS plans to continue operating its current personal property sales program GSA auctions as part of the overall FAS solution, along with the vendor solution. Customer agencies will have a choice of sales solutions under the overall umbrella of FAS: GSA Auctions or the options offered by the FAS vendor.

- FAS continues to miss milestones. The Project Manager advised us that the personal property portion of FAS would not be transferred to FSS in October 2004 as the FAS Team and FSS had agreed. In addition, in May 2004, Liquidity Services, Inc., protested the award of the FAS personal property sales contract to Maximus, Inc., and the GAO ruled in their favor in August 2004. The impact of this ruling on the FAS initiative is unknown at this time.

- FAS initially included only asset sales, but utilization and donation were later added at the insistence of OMB. Still, the initiative lacks the acquisition and use phases. FAS' FY 2004 Business Case highlights the issue, stating: "An additional opportunity for improvement, however, lies in FAS' ability to become part of a much broader Asset Management Lifecycle Framework context. . . . Currently, no program exists to integrate these three efforts [acquisition, use, and utilization/donation/sale] into a unified asset management improvement program."

- E-Travel is expected to cost over $40 million to develop from FY 2002 through FY 2005, and the anticipated 10-year cost of their contracts with three vendors is $450 million. However, they do not anticipate initially including data warehousing capability. The e-Travel Project Manager views data warehousing as a key system functionality that enhances benefits of the system to the Government.

<u>Future Funding</u>

The FSS Commissioner and officials from the FSS Office of the Controller advised us that they are concerned that the initiatives may not generate adequate revenue to cover expenses when the initiatives move from the developmental to the operational phases. Based upon information we have received, we believe they may be correct, but that this will not occur without considerable input and oversight.

Not all decisions have been finalized regarding funding for the initiatives after the development stage is complete. However, plans are being made to move the initiatives to operational units within GSA and collect user fees. It appears that the plans made thus far have been based on a review of costs, consideration of the impact of fees on customer agencies, and discussion within GSA.

A few funding issues appear worthy of note:

- OMB's FY 2005 Passback states that all initiatives will be self-sustaining by FY 2006. However, if it achieves its transaction goals, e-Travel expects to break-even in FY 2007 with its established Industrial Funding Fee of $3.50 per transaction, but only if overhead costs are not considered. When this initiative is transferred to an operational unit, it would seem reasonable for the initiative to assume its fair share of overhead costs (such as space and personnel) that are paid by other GSA operational programs. It seems that to do otherwise would unfairly inflate the amount of overhead costs that other programs would need to recover from their customers.

- FAS anticipates recovering costs from property sales proceeds, but has not yet established fees, and its probable business volumes are unclear at this time. The Acting Director, Property Management Division, advised us in May 2004 that when FSS absorbs the personal property aspect of FAS, they plan to continue operating their current personal property sales program as part of the overall solution along with the vendor solution. In addition, FAS officials requested but did not obtain a mandate for agencies to use their solution, and the GAO recently upheld a vendor protest of the contract awarded to Maximus. All of this leads to uncertainty regarding the future of FAS and the business volumes they can expect, and therefore will make an Industrial Funding Fee calculation difficult.

- IAE anticipates being funded through subscription fees, rather than per-transaction fees. In June, 2004, the Project Manager advised us that: "Our model has been three tiers, with the largest agencies paying 0.03% of their procurement volume, the mid-range 0.02% and the remainder of the CFO Act agencies paying 0.01%. Unless/until or [sic] board changes that, this will be the model for all future years." FSS' concerns that

agencies may not honor their signed Memorandums of Understanding or may seek to reduce their funding level appear to have validity, since in August 2004, the Department of Defense sought to reduce their IAE developmental investment during Fiscal Year 2004 by $1.4 million.

Internal Controls

We did not perform any tests on internal controls. However, we did discuss program processes with GSA officials and reviewed limited documentation to gain a general understanding of the control environment.

APPENDIX

REVIEW OF FUNDING AND MANAGEMENT CONTROLS OVER THE
INTEGRATED ACQUISITION ENVIRONMENT,
FEDERAL ASSET SALES, AND E-TRAVEL E-GOV INITIATIVES
REPORT NUMBER A040139/F/6/F05018

REPORT DISTRIBUTION

	Copies
Commissioner, Federal Supply Service (F)	2
Chief Information Officer (I)	2
Audit Follow Up and Evaluation Branch (BECA)	1
Assistant Inspector General for Auditing (JA)	2
Regional Inspector General for Acquisition Programs Audit Office (JA-A)	1
Audit Planning Staff (JAO)	1
Assistant Regional Inspector General for Investigations (JI-5/KC)	1