Office of Inspector General
Audit Report

Transportation Administrative Service Center Computer Center Department of Transportation

Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Subject: ACTION: Report on TASC Computer Center
MA-1999-062

Date: March 3, 1999

From: The Inspector General

Reply to
Attn. of: J-1

To: The Deputy Secretary

This report presents the results of our audit of the Department of Transportation's (DOT) Administrative Service Center (TASC) Computer Center (Center). We did the audit in response to language included in the conference report for the FY 1999 DOT and Related Agencies Appropriations Act. The report noted that our February 5, 1998 report on TASC [1], which concluded the Center was not cost effective, may have been based on an out-dated independent analysis and directed us to review the Center.

Our objectives for this audit were to (1) determine whether the Center is providing data processing services at a cost which is competitive with comparable services available from commercial or other governmental sources, and which fulfill the needs of departmental users, and (2) assess user's rationale for desiring to obtain data processing services elsewhere. The capability of the Center to operate at the minimum capacity established by the Office of Management and Budget (OMB) has been assessed by an independent consultant under contract with TASC.

RESULTS-IN-BRIEF

Although the Center has made some progress in improving its cost effectiveness since our earlier report, and reduced its billing rate by 20-percent over the last 16 months, our work showed that the Center is not competitive in the marketplace. Specifically,

- The Center's current rates for data processing and storage are approximately two and six times higher, respectively, than those quoted by another Government center providing comparable data processing and storage services.

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[1] Office of Inspector General Report No. MA-1998-073, titled "*Transportation Administrative Service Center*" issued February 25, 1998.

- The Center was 31 percent less efficient than the average industry data processing center when compared to benchmarking data for 168 Government and commercial centers.

- A February 1999 independent assessment of the Center showed that its FY 1998 costs were approximately 11 percent higher than comparable Government computer centers, and 15 percent higher than comparable industry computer centers.

Our survey of the Center's customers disclosed that they were generally satisfied with the quality and timeliness of services and indicated it was meeting their needs. However, the Center's three largest customers, the Federal Highway Administration, U.S. Coast Guard, and the Federal Transit Administration, which collectively accounted for 90 percent of the Center's FY 1998 revenue, have already discontinued, or are planning within two years to discontinue using the Center's mainframe data processing services. All three customers responded that they were discontinuing use of the Center because they believed it was not cost competitive. The Federal Highway Administration and Coast Guard advised us that they had cost data for comparable services from other sources supporting their decisions. Further, both the Federal Highway and Federal Transit Administrations have identified smaller and less expensive technology that meets their needs.
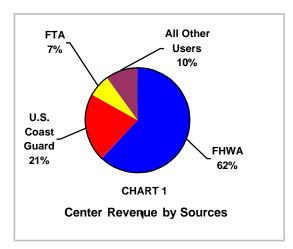
Departmental policy requires the use of the Center's services unless an alternative source is shown to be cost effective for both the individual Operating Administration and the Department as a whole. The policy is premised on the assumption that shared administrative support operations would be beneficial to both the Operating Administration and the Department. However, Operating Administrations have been allowed to obtain services from alternative sources without the analysis required by departmental policy. As a result, the Department does not know whether data processing services are being obtained in a manner that is beneficial to individual users and the Department as a whole.

We did not perform an analysis to determine whether the Center would be cost effective if all Operating Administrations obtained their data processing services from TASC. However, because the Center is not cost effective it has failed to attract any significant new business and is losing its three largest customers. In addition, an independent assessment by the Logistics Management Institute concluded that the Center's labor costs are significantly higher than comparable centers. For example, according to the Institute, the Center's average cost per employee for FY1998 was $105,473 compared to $63,765 for industry centers and $73,200 for government centers.

Under existing circumstances, the prospect of the Center providing cost-effective services is unlikely. As a result, the Deputy Secretary should direct TASC to discontinue offering its current services within the next two years and instruct the few departmental components that planned to continue to rely on the Center to acquire substitute services.

BACKGROUND

DOT established TASC in 1995 to provide common administrative services to all DOT's Operating Administrations. Within TASC's Information Technology Operations Division, the Center provides fee-for-service mainframe data processing, bulk data storage, and high speed printing of computer generated reports. The Center generated revenue totaling $14.6 million during FY 1998 from service billings to 12 DOT and two non-DOT agencies. The Federal Highway Administration, U. S. Coast Guard, and the Federal Transit Administration accounted for 90 percent of the Center's business during FY 1998. The revenue by Operating Administration is shown in Chart 1 below.

CHART 1

Center Revenue by Sources

Our 1998 report concluded that because of equipment capacity limitations, the Center was capable of operating at only about two-thirds of the level that the Office of Management and Budget (OMB) considers cost effective. Further, based on our comparison of TCC operating cost data with benchmark data obtained from Gartner Measurement[2] , the Center was 42 percent less efficient than comparable centers and 118 percent less efficient than centers operating at or above OMB standards. We recommended TASC implement a plan with milestone dates for making the Center cost effective, or discontinue providing these services.

In response to our recommendation, TASC implemented a business plan. The plan's goal was to make the Center cost effective by controlling expenses and increasing processing volume by attracting new customers. To help accomplish this goal, the Center installed an IBM S390 computer. This computer was installed in October 1997, so most of the data in this report reflects the upgraded IBM S390 operation.

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[2] This benchmark data consists of cost, staffing and workload data obtained from Gartner Measurement. None of the benchmark data is over one year old. Gartner Measurement has evaluated thousands of Information Technology organizations over the past 20 years.

SCOPE AND METHODOLOGY

We performed the audit between December 1998 and February 1999 at TASC's offices in Washington D. C., and focused on FY 1998 operations. We analyzed the results of the Center's operations using financial and computer usage reports, and performed such tests as were considered necessary to validate the accuracy of reported data. We interviewed TASC management, and the Center operating and administrative personnel to obtain an understanding of the Center's operation and to obtain information necessary to perform the audit.

As part of our audit, we obtained financial and operating data that allowed us to benchmark the Center's FY 1998 operating efficiency against results achieved by 168 other Government and commercial centers. In addition, to assess the Center's current competitive status in the marketplace, we compared the Center's billing rates for data processing and storage with those of another Government center. Finally, to determine if the Center provides competitive data processing services, which fulfill the needs of the Department, and to obtain the rationale for customers desiring to obtain services elsewhere, we met with representatives of all DOT Operating Administrations and outside agencies which used the Center services during FY 1998.

We conducted the audit in accordance with the Government Auditing Standards prescribed by the Comptroller General of the United States.

FINDINGS

The Center is not Competitive in the Marketplace

Our work showed that the Center has made some progress towards improving its competitive status by reducing billing rates 20 percent since our last review. These reductions were due primarily to an increase in data processing volume of 32 percent, primarily with existing customers, coupled with only a 3.3 percent increase in operating expenses for FY 1998. Although significant, the billing rate reduction has not allowed the Center to become cost competitive with the industry.

We compared service-billing rates with another Government center. We found that the Center's billing rates for data processing and storage were between two to six times higher respectively, than those published by another Government center. This computer center is of similar size and offers comparable data processing and storage services.
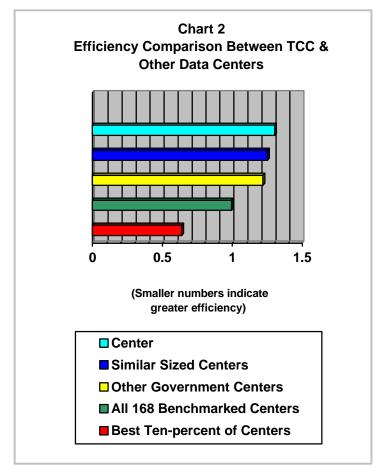
The Center was successful in obtaining two outside contracts valued at $0.8 million in January 1999. However, this new business represents short term Year 2000 testing projects that will not impact the Center's capacity utilization and competitiveness beyond the current year.

The Center is Less Efficient than Its Competition

The inability of the Center to compete effectively in the marketplace is due in part to its lack of operational inefficiency. In our current review, we compared the Center's 1998 efficiency rating using industry data obtained from Gartner Measurement. Using the consultant's standard methodology, the calculated value results in an efficiency index where a higher number indicates a lower efficiency rating. We found that the Center's rating of 1.30 was:

- 4 percent less efficient than the 1.25 average for similar sized centers,

- 7 percent less efficient than the 1.22 average for other Government centers,

- 31 percent less efficient than the 1.00 average for all 168 centers included in the consultant's database, and

- 104 percent less efficient than the 0.64 average for the centers in the top 10 percent.

These relationships are shown in the Chart 2 below.

Chart 2
Efficiency Comparison Between TCC &
Other Data Centers

(Smaller numbers indicate greater efficiency)

- ☐ Center
- ■ Similar Sized Centers
- ☐ Other Government Centers
- ■ All 168 Benchmarked Centers
- ■ Best Ten-percent of Centers

Independent Assessment Shows the Center is More Costly

In February 1999, the Logistics Management Institute (LMI) issued a report summarizing the results of its independent assessment of the Center. The assessment was performed under a contract with TASC in response to the DOT and Related Agencies Appropriations Act, 1999. The conference report accompanying the Act directed that the assessment be conducted to determine whether the Center is currently capable of operating at levels that the Office of Management and Budget considers cost effective.

LMI concluded that the Center can operate cost effectively as compared to similar industry and Government data centers and that its mainframe exceeds the minimum capacity level required by the Office of Management and Budget. However, the report shows that for FY 1998 the Center's costs totaled approximately 11 percent higher than costs for comparable Government computer centers and 15 percent higher than costs for comparable industry centers. LMI attributes the Center's higher cost to two areas, labor and occupancy costs. While both areas contributed to the difference, labor costs were significantly higher than the averages for comparable industry and Government centers.

The LMI report shows that for FY 1998 the Center's labor costs totaled $6,750,264. This total exceeded the industry average by over 120 percent (or $3.7 million) and the Government average by 103 percent (or $3.4 million). Although the report does not analyze the reason for the significantly higher cost, it notes that the Center's average cost per employee was also significantly higher than that of both industry and Government centers. The Center has 64 employees (4 government and 60 contract). The Center's average cost per employee for FY 1998 was $105,473. The average cost per employee in the industry and Government centers was $63,765 and $73,200 respectively.

We have not reviewed the Center's labor costs to determine why they are significantly higher than the other centers. The TASC Director believes the difference is attributable to the fact that the Center's workforce has a higher skill level that requires higher pay.

Customers Are Satisfied But Seeking Services From Other Sources

We surveyed all DOT and non-DOT agencies to assess whether the Center was meeting their needs and to determine why customers desire to obtain data processing services elsewhere. The survey was designed to determine (i) if the Center's services fulfilled the customer's needs and expectations, (ii) if customers perceived the Center as cost effective and if cost comparisons were prepared to support their opinion, (iii) the rationale for not using the Center's services or for desiring to obtain services elsewhere, and (iv) plans to increase or decrease use of the Center.

The results of our survey showed that Center customers were generally satisfied with the quality of service and system availability and believed the Center was meeting their data processing needs. However, 24 percent of the customers, including the Federal Highway

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Administration and the U.S. Coast Guard stated that the Center was not competitive with other data processing service providers. Although these customers responded that they made cost comparisons, they did not have any formal analysis supporting their position. Sixty-eight percent of the respondents including the Research and Special Programs Administration and the Maritime Administration had not performed any comparative cost analysis and therefore, did not have a basis to respond to the survey question on the Center's competitiveness. Eight percent told us they thought the Center was cost effective but had not made a comparative analysis.

The three largest Center customers all stated they had either already discontinued using the Center for data processing services or were planning to do so. The Federal Transit Administration advised us it is no longer using the Center because it has moved its client server program to an in-house on-line system in November 1998. Similarly, the Federal Highway Administration and the U.S. Coast Guard advised us they were planning to discontinue using the Center over the next two years. On January 8, 1999 the Federal Highway Administration, the largest Center service user, formally notified TASC of its plan to discontinue using data processing services. In subsequent discussions the Federal Highway Administration told us that they expected phase out the Center's services within two years. None of the customers surveyed indicated they were planning any significant near term increase in Center use.

Departmental Policy Requires use of the Center

Current Departmental policy requires the use of the Center's services unless a cost analysis demonstrates it is advantageous to the Operating Administration and the Department as a whole to use alternative sources. The policy requires that a decision to use an alternative source be approved by the Deputy Secretary based on a recommendation from the TASC Board of Directors. This policy is premised on the assumption that shared administrative support operations would be beneficial to both the Operating Administration and the Department as a whole. However, Operating Administrations have been allowed to obtain services from non-TASC sources without the required analysis or approval. As a result, the department does not know whether data processing services are being obtained in a manner that is beneficial to individual users and the department as a whole.

We did not perform an analysis to determine whether the Center would be cost effective if all Operating Administrations obtained their data processing services from TASC. However, the Center has not attracted any significant new data processing business since FY 1998 and has, or will in the near future, lose up to 90 percent of its existing business. Under these conditions, its cost competitiveness can be expected to decline further.

RECOMMENDATION

Given the limited prospects for improving the cost effectiveness of the Center, we recommend the Deputy Secretary direct TASC to discontinue offering its current services within the next two years and instruct the few departmental components that planned to continue to rely on the Center to acquire substitute services.

MANAGEMENT COMMENTS

We discussed a draft of this report with the TASC Director on February 26, 1999. The Director did not agree with the recommendation and raised three issues. First, he asked that we consider including a reference to departmental policy on the use of TASC for administrative services. We revised the report to reflect the policy. He also questioned the appropriateness of an example involving a TASC bid for additional business. Based on the information he presented we have deleted the example from the report. He also asked that we consider citing the results of a recently completed independent assessment of the cost effectiveness. We revised the report to reflect the results of the independent assessment.

ACTION REQUIRED

Please provide written comments within 30 days on specific actions taken or planned. If I can answer any questions or be of further assistance, please feel free to contact me at (202) 366-1959 or my Deputy, Raymond J. DeCarli, at (202) 366-6767.