

**The Department of the Treasury's HR Connect
Human Resources System Was Not
Effectively Implemented**

February 2005

Reference Number: 2005-10-037

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.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

February 14, 2005

MEMORANDUM FOR ASSISTANT SECRETARY OF THE TREASURY FOR
MANAGEMENT/CHIEF FINANCIAL OFFICER

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Assistant Inspector General for Audit
(Small Business and Corporate Programs)

SUBJECT: Final Audit Report - The Department of the Treasury's HR
Connect Human Resources System Was Not Effectively
Implemented (Audit # 200310022)

This report presents the results of our review of the implementation of the Department of the Treasury's HR Connect human resources system in the Internal Revenue Service (IRS). This audit was conducted in response to a request from the Assistant Secretary of the Treasury for Management/Chief Financial Officer (CFO).

In summary, the Department of the Treasury decided to implement the HR Connect system based on promising capabilities and the belief that it offered a cost-effective solution for the Department of the Treasury's and its bureaus' redundant, expensive, and inefficient human resources systems. However, some of the originally expected program features and cost/benefits have since been changed or eliminated. Each year, the Department of the Treasury's HR Connect Program Office submitted business case analyses to the Office of Management and Budget (OMB), but they were not consistent and did not include complete information on systems that were to be replaced. As a result, the Department of the Treasury and the IRS have incurred unexpected costs for maintaining software and systems that were to be replaced, incurred additional costs for modifying the HR Connect system, and scaled back the expectations for system capabilities.

The HR Connect Program Office has not provided adequate management oversight for major portions of the HR Connect system implementation. The costs to implement and operate similar software at other Federal Government agencies are significantly lower. The HR Connect system implementation at the Department of the Treasury cost \$173 million, while the implementation of similar human resource systems at the Coast Guard and the United States Department of Agriculture cost \$24 million and \$15 million, respectively. The oversight of the contractor does not appear to be adequate, and the

project has experienced significant delays and poor initial coordination between the IRS and the HR Connect Program Office. In Fiscal Year 2003, the Department of the Treasury executives responsible for the implementation of the HR Connect system left to attain positions at the Department of Homeland Security. Furthermore, at the conclusion of our audit fieldwork, the Treasury Assistant Secretary for Management/CFO advised us that the HR Connect Program Office had been realigned to the Office of the Chief Information Officer (CIO) effective September 19, 2004. We believe that, for this realignment to be effective, the CIO will need to take actions to improve program oversight and reduce costs.

Since the beginning of the HR Connect system implementation, there have been changes in the expected savings and costs of the project. Moreover, the HR Connect Program Office extended the expected life cycle of the system from 10 to 15 years. These adjustments increased the return on investment to show a higher payback. We do not believe the HR Connect Program Office had an adequate basis for extending the expected system life cycle. Further, even if the system is in place for its projected 15-year life cycle, the underlying analysis provided by the HR Connect Program Office does not support the savings claimed, especially those related to staff reassignments or reductions. As such, the expected savings of \$899 million was unsubstantiated.

We recommended that the CIO ensure future business case analyses submitted to the OMB explain how system functions have been revised and how these changes have affected the expected return on investment, schedule, costs, and benefits. In addition, the CIO should reevaluate the duties which have been delegated to the contractor by the HR Connect Program Office to ensure the HR Connect Program Office retains the duties and information necessary for proper financial and technical oversight. The CIO should identify the number, cost, and benefits of custom modifications made to the software for the Department of the Treasury and each bureau and collect and consider this information before approving any future requests for customization. The CIO should also coordinate with other agencies which have implemented PeopleSoft Federal Human Resources Management Systems[®] software to achieve a more cost-effective model for operating and maintaining the HR Connect system. Finally, the CIO should properly account for the HR Connect system costs and assess the likelihood of projected benefits based on the system's limitations and an assessment of the economic systems life, so future decisions are based on correct information.

Management's Response: The Department of the Treasury's management agreed with our recommendations and proposed corrective actions to address the problems identified in the report. These proposed actions include reviewing the basis for HR Connect's actual and estimated costs and benefits; reconciling the reliability of assumptions, financial, and metric data with program accounting; and establishing a basis for improving program management. Management also established a governance structure to provide strategic direction and review any changes to HR Connect. Management will establish a tracking system to monitor bureau disposition of legacy systems and provide accountability for the retirement of such systems. Management also filled a vacancy in the business operations organization with a permanent Federal employee experienced in financial analysis and business case planning.

Management plans to undertake a more comprehensive assessment of the justification for costs and benefits and the impact of each custom modification while capturing those results as part of the configuration control process. Furthermore, management plans to study other agencies as appropriate to obtain information on the operations and maintenance cost models as part of a Governance Board initiative to assess options for allocating HR Connect costs to its users. Management also plans to hire an independent consultant to assist in establishing a cost-accounting method for tracking costs and quantifying benefits by cost categories and by HR Connect customers. Management believes that the knowledge gained from the process analysis and industry best practices will help improve oversight of the HR Connect program.

Management also included in their response some general comments about the HR Connect Program and continues to assert that their projected cost savings have an adequate basis. As such, management disagrees with the outcome measures we reported related to improving the reliability of their information. Management also disagrees that the \$21 million spent on the Integrated Personnel System (IPS) and the \$20 million spent on 2 cancelled contracts was wasted. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment:

Given the problems we have noted with contractor oversight, we have concerns with regard to the CIO's plans to hire an independent consultant to assist in establishing a cost accounting method. We believe that the CIO should first seek the assistance of cost accounting experts within the Department of the Treasury through the Assistant Secretary for Management/CFO.

Management was never able to provide adequate data or sound analysis to support the projected savings for the HR Connect system or detail the projected savings which are actually attributable to CareerConnector, which is separate software. Furthermore, management was not able to demonstrate any benefit from the \$21 million spent on the IPS and the \$20 million spent on 2 cancelled contracts. The Office of Audit's complete response to management's comments is included as Appendix VI.

Copies of this report are also being sent to Department of the Treasury and IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**The Department of the Treasury’s HR Connect Human
Resources System Was Not Effectively Implemented**

Table of Contents

Background	Page 1
The HR Connect System Has Not Met Some of the Original Expectations.....	Page 3
<u>Recommendation 1</u> :	Page 6
The HR Connect Program Was Not Effectively Managed	Page 7
<u>Recommendation 2</u> :	Page 14
<u>Recommendations 3 and 4</u> :	Page 15
Reported Financial Information Was Not Reliable.....	Page 15
<u>Recommendation 5</u> :	Page 21
Appendix I – Detailed Objective, Scope, and Methodology	Page 23
Appendix II – Major Contributors to This Report	Page 25
Appendix III – Report Distribution List	Page 26
Appendix IV – Outcome Measures.....	Page 27
Appendix V – Management’s Response	Page 29
Appendix VI – Office of Audit Comments on Management’s Response.....	Page 37

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Background

In Fiscal Year (FY) 1995, there were approximately 20 information systems throughout the Internal Revenue Service (IRS) to handle processing of human resources information, such as timekeeping, payroll, training, recruiting, hiring, and personnel actions. Because of the costs and resources needed to use and maintain these systems, the IRS decided to change to a single system to handle most of its human resource information needs. To accomplish this, the IRS began to develop a system known as the Integrated Personnel System (IPS).

In June 1997, the IPS project office selected PeopleSoft Federal Human Resources Management Systems[®] (HRMS) software as the commercial-off-the-shelf software solution to replace the aging IRS systems. Over a 10-year life cycle, the IPS was to serve as the single integrated source of workforce data for the IRS in an automated, self-service environment. The benefits of implementing the IPS would include personnel savings, improved data accuracy, accessibility, availability, and customer satisfaction.

Also in FY 1997, independent of the IRS' efforts, the Department of the Treasury conducted a Human Resources System Study and reported that the configuration of its human resources systems, anchored by the National Finance Center (NFC) Payroll/Personnel System, was extremely expensive to use and maintain, used inefficient processes, relied on outdated technology, required too much specialized knowledge to operate, offered limited user access, and did not provide adequate and timely information. Department of the Treasury officials believed it was necessary to commit to a major investment in a human resources management system. They decided to implement a Department of the Treasury human resources system known as the HR Connect system, which would also use PeopleSoft Federal HRMS[®] software as the basis for the system.

In FY 1998, an analysis by the Department of the Treasury indicated that, for the HR Connect system to be cost-effective, its implementation would need to include all Department of the Treasury offices and bureaus, especially the IRS because it is the largest Department of the Treasury bureau. During FYs 1998 and 1999, the IRS contributed

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

\$7 million in payments to the Department of the Treasury's vendor for the HR Connect system. In FY 2000, after discussions with Department of the Treasury officials on the merits, cost, and benefits of a Department-wide system, the IRS began contributing funds directly to the Department of the Treasury for the Department-wide effort to implement the HR Connect system and dropped its own attempt to develop a similar system. The IRS formalized its participation when it signed a Memorandum of Understanding with the Department of the Treasury in July 2002.

In February 2004, the IRS Commissioner testified before the Congress that the HR Connect system would provide tangible benefits and improve the efficiency and effectiveness of the tax administration system.¹ The HR Connect system was expected to be able to significantly reduce the costs and improve efficiencies associated with human resources tasks.

We performed this review to evaluate the implementation of the HR Connect system in the IRS. This review was performed at the Department of the Treasury National Headquarters in the HR Connect Program Office, and the IRS National Headquarters in the Offices of Agency-Wide Shared Services and Business Systems Modernization located in Washington, D.C., during the period June 2003 through August 2004. The audit was conducted in accordance with *Government Auditing Standards*.

The completion of our audit was delayed because we experienced difficulty in obtaining complete and timely information related to the costs of implementation from both Department of the Treasury and IRS management. In addition, many of the documents provided to us as support for the project costs and savings were inconsistent and changed throughout the course of the audit. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹ Testimony before the Subcommittee on Oversight of the House Committee on Ways and Means: Hearing on IRS Efforts to Modernize Its Computer Systems (February 12, 2004).

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

The HR Connect System Has Not Met Some of the Original Expectations

The Department of the Treasury's HR Connect Program Office decided to implement the HR Connect system based on promising capabilities and the belief that it offered a cost-effective solution for the Department of the Treasury's and its bureaus' redundant, expensive, and inefficient human resources systems. The original expectations for the HR Connect system were that it would:

- Meet 80 percent of the IRS' business requirements.
- Produce a positive return on investment, assuming a 10-year system life cycle that began in FY 1997.
- Replace 20 existing IRS systems, including the need to use the NFC Payroll/Personnel System.
- Offer new capabilities, such as hiring and recruiting.

However, the program features that were originally expected have been changed several times since the program began in FY 1997, and some of the functions have been eliminated. In addition, the Department of the Treasury and the IRS have incurred additional costs for modifying the HR Connect system to add certain new functions. Program officials were unable to adequately demonstrate the effects of these changes or measure the associated costs and benefits. Moreover, the annual business case analyses that the HR Connect Program Office submitted to the Office of Management and Budget (OMB) did not consistently report how these changes would affect the systems that were to be replaced.

Business case analysis submissions to the OMB were not consistent

Each year, the HR Connect Program Office must submit to the OMB a Business Case Analysis (Exhibit 300) to report progress on system development, expected benefits and costs, and justification for continued funding of the system. The HR Connect Program Office submitted the first business case analysis for the HR Connect system in FY 1997 and submitted updates each year to ensure continued funding. The business case analysis submissions included the overall costs and benefits expected from implementation of the HR Connect system, but the data provided from year to year were not consistent.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Consequently, we could not compare the data from year to year to determine which functions had been eliminated and which had been added, nor could we compare the associated costs, benefits, and supporting data.

In the FY 1997 Business Case Analysis submission, the HR Connect Program Office reported that there were over 90 systems Treasury-wide that would be replaced by the HR Connect system and reported the annual costs of these systems to be \$53 million. However, neither a list of these systems nor the costs and savings associated with each system were included. In subsequent business case analysis submissions, the HR Connect Program Office listed some of the systems to be replaced, but they were not clear as to when decisions were made to continue using systems that were planned for replacement. This inconsistency made it difficult to assess the progress of implementation. For example, in the FYs 2001 and 2002 Business Case Analysis submissions, use of the Office of Personnel Management's Employee Express system was identified for replacement with expected annual savings of approximately \$580,000. However, during our audit, HR Connect Program Office officials asserted they had never planned to discontinue the use of the Employee Express system. Business case analysis submissions did not include details sufficient to identify when the decision was made to continue using the Employee Express system.

The savings expected from retiring existing systems have been reduced significantly

In its first business case analysis submission to the OMB, the HR Connect Program Office did not specify which systems the HR Connect system would replace. Despite this omission, HR Connect Program Office officials did identify annual savings of \$53 million attributable to retiring existing systems. Based on the savings and the functions expected from the HR Connect system, it appeared the Department of the Treasury planned to use the HR Connect system to replace most of the major human resources systems, including payroll processing, used by its bureaus. The benefits of having a single system to provide the capabilities of these systems were a significant factor in the decision to adopt the HR Connect system. The HR Connect

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

system was expected to provide a single, integrated system that would allow efficiencies in training users and provide a single information source for employees. However, as of August 2004, a number of Treasury's major systems had not been replaced by the HR Connect system. Table 1 shows the major human resources systems used by the IRS that have not been replaced.

Table 1: Systems Used by the IRS That Have Not Been Replaced by the HR Connect System

System Name	System Function
NFC Payroll system	Process payroll.
Totally Automated Personnel System - including Single Entry Time Reports (SETR)	Create personnel actions and track personnel, employment, and benefit-related data. The SETR module is used for timekeeping.
Employee Express system	Provide employees access to their own accounts to view and update personal data.
Administrative Corporate Education System (since replaced by the Electronic Learning Management System)	Training administration.

Source: The HR Connect Program Office.

Of the systems used by the Department of the Treasury, the NFC payroll system had the highest annual operating costs, at approximately \$30 million. At the start of the project, the HR Connect Program Office realized there would be a serious reduction in cost savings if the HR Connect system was used only as the payroll interface while the NFC was retained as a payroll provider. An analysis performed in FY 1998 showed that the benefits of the HR Connect system implementation would be reduced by an estimated \$176 million if the Department of the Treasury stayed with the NFC as its payroll provider under the existing contract arrangement. Replacing the NFC as the payroll provider with the HR Connect system was critical to the Department of the Treasury's justification for implementing the HR Connect system. However, after the HR Connect Program Office began implementing the HR Connect system, a Federal Government-wide "eGov" initiative

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

consolidated the payroll functions of all Federal Government agencies into one of four processing centers, including the NFC. As a result, the payroll functions of the HR Connect system were not implemented.

The other systems listed in Table 1 were not replaced because Department of the Treasury officials believed it would not be feasible to modify the HR Connect software, PeopleSoft Federal HRMS,[®] to meet its requirements.

Additional software was purchased to provide hiring and recruiting capabilities

Program managers told us that, initially, significant monetary benefits from implementing the HR Connect system were expected to come from the hiring and recruiting capabilities. However, the HR Connect Program Office ultimately concluded that it was not feasible to modify PeopleSoft Federal HRMS[®] software to meet the Department of the Treasury's requirements. Consequently, the HR Connect Program Office decided to use the IRS system, CareerConnector (which is the commercial-off-the-shelf software called QuickHire[®]), throughout the Department of the Treasury. While this became a new service for other Department of the Treasury employees, it was already available to IRS employees and could have been provided to other Department of the Treasury employees without implementation of PeopleSoft Federal HRMS[®] software. HR Connect Program Office officials have since deemed the CareerConnector system to be part of the HR Connect system; however, IRS officials advised us they are different systems and the IRS funded the CareerConnector system separate from its HR Connect system payments.

Recommendation

1. The Chief Information Officer (CIO) should ensure future business case analysis submissions to the OMB explain how system functions have been revised and how these changes have affected the expected return on investment and schedule. The business case analysis submission should reflect the costs, expected benefits, and justifications for the changes. In addition, the

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

business case analysis submissions should include the status of systems that were expected to be replaced and allow for comparison from year to year.

Management's Response: The CIO agreed to review the basis for HR Connect's actual and estimated costs and benefits; reconcile the reliability of assumptions, financial, and metric data with program accounting; and establish a basis for improving program management. Management has also established a governance structure to provide strategic direction and review any changes to the HR Connect system and will establish a tracking system to monitor bureau disposition of legacy systems and provide an accountability of the retirement of such systems.

The HR Connect Program Was Not Effectively Managed

The HR Connect Program Office has not provided adequate management oversight for major portions of the HR Connect system implementation. The costs to implement and operate similar software at other Federal Government agencies are significantly lower. The oversight of the contractor does not appear to be adequate, and the project has experienced significant delays and poor initial coordination between the IRS and the HR Connect Program Office. The Department of the Treasury needs to address project management areas to reduce the risk of additional program inefficiencies.

The costs to implement and operate similar software at other Federal Government agencies are significantly lower

A comparison of the implementation of the HR Connect system at the Department of the Treasury to the implementation of similar systems using the PeopleSoft HRMS[®] software at other Federal Government agencies indicates the costs and time to implement the HR Connect system, as well as the annual operating costs, have been disproportionately higher for the Department of the Treasury. The comparison is based on the number of employees served by the systems. Table 2 shows a comparison of the Department of the Treasury system with the systems used by the United States Department of Agriculture (USDA) and the Coast Guard.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Table 2: Comparison of HR Connect System Implementation With That of Similar Human Resource Systems Used at Other Federal Government Agencies

	Department of the Treasury	Coast Guard	USDA
Implementation Costs	\$173 million	\$24 million	\$15 million
Annual Operating and Maintenance Costs ²	\$21.8 million ³	\$5 million	\$5.6 million
Time Period to Implement System	7-8 Years	3 Years	3 Years
Number of Employees Serviced by System	138,000	50,000	43,550
Implementation Cost per Employee	\$1,254	\$480	\$344
Operating Cost per Employee	\$158	\$100	\$128

Source: Estimates provided by agency officials.

The functions provided by the software are similar for each of the agencies. The core features used by each of the agencies are:

- Personnel actions.
- Interface with the payroll provider.
- Employee self-service.
- Position management.

There was some variance in the implementation of features such as performance management, recruiting, and training administration. However, the differences in the implementation costs and the operating and maintenance costs appear too great to be accounted for by the variance in features and the number of employees using the system. The Department of the Treasury was unable to provide adequate cost data for us to evaluate why its implementation and operating costs are so much higher than those for the Coast Guard and USDA human resources information systems. However, program officials informed us that they prioritized delivering capabilities to end users, and this

² Including planned system upgrades.

³ Average operating costs for FYs 2005 through 2012.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

resulted in paying for extensive modifications to the software.

The HR Connect Program Office relies to a great extent on the contractor for project management

The HR Connect Program Office and the IRS rely on a contractor to complete many of the tasks for implementing the HR Connect system. Since the HR Connect program began in FY 1997, the HR Connect Program Office has spent over \$109 million on this contractor. To effectively manage the program, HR Connect Program Office management needs to provide effective contractor oversight and maintain accurate and current information on the progress of the project.

HR Connect Program Office management is ultimately responsible for ensuring good business decisions are made, time periods are met, and costs remain within the established budget. However, neither the HR Connect Program Office nor IRS officials were able to provide data to support the costs reported for the HR Connect Program. They informed us that they did not have the supporting data because the contractor developed the funding request, and there was no independent Federal Government verification of the accuracy or completeness of the costs reported.

The over reliance on the contractor was also evident in other ways. Tasks performed by the contractor, as shown in a recent contract status report, included:

- Preparing the annual business case analysis for submission to the OMB.
- Preparing a status report for the Department of the Treasury to respond to a request by the House and Senate Appropriations Committees for information on the HR Connect system implementation.
- Preparing briefings to the Treasury Assistant Secretary for Management/Chief Financial Officer (CFO) on the HR Connect system funding options.
- Developing program nominations for the Association for Enterprise Integration's 2004 Excellence in Enterprise Integration award.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

- Providing financial management support, including updating the budget with actual costs.
- Performing contract administration functions such as invoice validation and justification and processing contract deliverables.

These tasks would have been more appropriately performed by the HR Connect Program Office. The ability to perform most of these tasks is directly related to the ability to provide effective project and contractor oversight.

The basis for decision making appeared to have migrated from the HR Connect Program Office to the contractor. We consistently encountered difficulty obtaining technical information from the HR Connect Program Office. This information was eventually provided by the contractor. For a period of more than 6 months, we requested that HR Connect Program Office officials provide us with a list of custom modifications that had been made to the PeopleSoft Federal HRMS[®] software package. Officials in the IRS HR Connect Program Office and the IRS Business Systems Modernization office informed us they were aware of only two custom modifications to the software. However, another IRS official told us the custom modifications had exceeded the expected number.

After we brought these inconsistencies to the attention of HR Connect Program Office management, they asked the contractor to provide a list of the custom modifications. The contractor provided a list of 1,283 modifications to the software (as of March 2004). However, the contractor's list did not identify the specific costs or benefits for each modification. HR Connect Program Office officials later explained that they did not compare the expected cost with the expected benefit for each modification before approval because their primary concern was providing the requested capability to the end users.

There are a number of reasons why the HR Connect Program Office should properly control the number, type, and cost of custom modifications to commercial software. The principal reason is that these modifications can significantly increase the implementation costs and the eventual costs to upgrade to newer versions of the software.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

We also encountered difficulty in obtaining complete and reliable information related to software upgrades from the HR Connect Program Office. In October 2002, the contractor recommended that the HR Connect Program Office upgrade to PeopleSoft Federal HRMS[®] software version 8.3. However, other delays in the program postponed the upgrade until January 2003, which was after PeopleSoft[®] had released version 8.8 of the software. Nonetheless, the Department of the Treasury went forward with the upgrade to version 8.3. In April 2004, more than 1 year after version 8.8 was released, when we inquired about the reason for the upgrade to version 8.3, the HR Connect Program Office Director of Systems Development for the HR Connect system told us that version 8.3 was the most current version available. Officials from the HR Connect Program Office later advised us that they were aware of version 8.8 and provided us a cost comparison of upgrading to version 8.3 and version 8.8, but they did not provide the supporting data needed to evaluate the basis for their decision. Furthermore, the information provided did not discuss the impact the custom modifications made to the software would have on the upgrade process.

HR Connect implementation for the IRS was significantly behind schedule

The HR Connect Program Office initially planned for the HR Connect system to have a 10-year life cycle beginning in FY 1997. The schedule included:

- The first 3 years to implement the personnel services portion of the system.
- The next 2 years to implement the payroll services portion of the system.
- The last 5 years to operate and maintain the fully implemented system.

Because the “eGov” initiative required all Federal Government agencies to use one of four centralized payroll systems, the payroll services capabilities of the HR Connect system were not implemented. The implementation of the personnel services portion of HR Connect was extended far beyond the originally planned date. In its FY 1997 Business Case Analysis, the HR Connect Program Office reported to

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

the OMB that the personnel services portion of the HR Connect system would be fully implemented in FY 2000. However, as of June 2004, the IRS had still not completed the implementation phase for personnel services. According to the HR Connect Program Office, several factors contributed to these delays, including:

- Upgrades were needed to the IRS' information technology infrastructure, such as increasing bandwidth, ensuring a common operating environment, and providing access to the system.
- Problems were encountered due to a contractor not completing required tasks during the first 3 years of implementation (FYs 1998 – 2000).
- IRS officials further postponed conversion due to filing season⁴ priorities.

One additional reason provided by the former HR Connect system project manager in an interview with *Government Computer News* was that Department of the Treasury officials postponed the HR Connect system rollout at the IRS until the HR Connect system offered more features than the current IRS human resources systems had. Otherwise, HR Connect functionality would have been “a step backward” from the existing IRS systems' capabilities.⁵

The implementation phase of this project is the most expensive portion of the system life cycle. Delays during this phase of the project increased the costs significantly.

The \$21 million spent on the IRS' development of its own IPS was wasted

From FYs 1995 through 1999, the IRS tried to develop an integrated human resources system called the IPS. The IPS team had selected PeopleSoft Federal HRMS[®] software for implementation within the IRS. However, after spending nearly 5 years and approximately \$21 million, the IRS abandoned the IPS project without implementing it. The personnel assigned to the IPS project were reassigned.

⁴ The filing season is the period from January through mid-April when most individual income tax returns are filed.

⁵ *Government Computer News* (May 5, 2003); Vol. 22, No. 10.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Department of the Treasury officials stated that very little of relevance was created by the IPS project. Many of the records related to the IPS were deleted or destroyed.

When the HR Connect Program Office began its research for obtaining an improved human resources system, there appeared to be little communication with the IRS about the IPS project. Between FYs 1997 and 1999, both the IRS and the HR Connect Program Office were conducting research and expending resources on independent efforts that used the same software. In FY 1998, the HR Connect Program Office entered into 2 contracts, totaling \$110 million, for assistance with the implementation of the HR Connect system as the Department of the Treasury's Department-wide system. However, after nearly 2 years and expenditures of \$20 million, the 2 contracts were discontinued.

In May 2000, after the IRS and HR Connect Program Office had spent a combined \$41 million on the failed IPS implementation and failed contractor efforts, the HR Connect Program Office entered into a new \$110 million contract. The new contract called for a Department-wide implementation of the HR Connect system that would include the IRS. However, nothing from the IPS was used in the development or implementation of the new HR Connect system contract.

In FY 2003, Department of the Treasury bureau officials advised the Department that a different structure was needed for HR Connect system program management

In a July 2003 memorandum to the Assistant Secretary of the Treasury for Management/CFO, Department of the Treasury bureau officials reported serious concerns with the management of the HR Connect system project. The memorandum was a report on the results of their effectiveness and efficiency examination of the Working Capital Fund Program for HR Services. The memorandum was from the Deputy Commissioner for the IRS, Commissioner for the Financial Management Services, and Senior Deputy Comptroller/CFO for the Office of the Comptroller of the Currency. The memorandum stated the following:

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Without major reforms, HR Connect will never achieve the performance levels and customer satisfaction that the technology offers and that the Department and its bureaus urgently need. Two reforms in particular are essential:

- *Governance: HR Connect has been plagued throughout its history by unreliable plans and budgets, uneven technical design and operations, and a nearly complete lack of accountability or transparency to its customers.*
- *Structure: A Departmental Office unit responsible for Department-wide HR policy and personnel services to the Department's leadership is inherently unsuited to provide direct operational management of enterprise-wide payroll and human resources systems and services. Policy functions and leadership service requirements will always take precedence over routine service to bureaus. Moreover, the central policy functions require core competencies that are very different from those needed to manage payroll and to deploy and support HR Connect.*

In FY 2003, Department of the Treasury executives responsible for the implementation of the HR Connect system left to attain positions at the Department of Homeland Security. Furthermore, at the conclusion of our audit fieldwork, the Treasury Assistant Secretary for Management/CFO advised us that the HR Connect Program Office had been realigned to the Office of the CIO effective September 19, 2004. We believe that, for this realignment to be effective, the CIO will need to take a number of actions to improve program oversight and reduce costs, as outlined in the following recommendations.

Recommendations

The CIO should:

2. Reevaluate the duties which have been delegated to the contractor by the HR Connect Program Office to ensure the HR Connect Program Office retains the duties and

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

information necessary for proper financial and technical oversight.

Management's Response: The CIO reduced the number of contractors from approximately 112 to 34 and restructured program functions to assure Federal accountability for program decisions. In addition, the CIO filled a critical management vacancy in the business operations organization with a permanent, Federal employee experienced in financial analysis and business case planning.

3. Identify the number, costs, and benefits of custom modifications that were made to the software for the Department of the Treasury and each bureau. This information should also be collected and considered for future software modification requests and will be needed to provide proper contractor oversight and to properly compare costs of upgrades with the benefits expected.

Management's Response: The CIO agreed to undertake a more comprehensive assessment of the justification for costs and benefits and the impact of each custom modification while capturing those results as part of the configuration control process.

4. Coordinate with other agencies which have implemented PeopleSoft HRMS[®] software, such as the Coast Guard and USDA, to achieve a more cost-effective model for operating and maintaining the HR Connect system. This would include evaluating how these agencies were able to implement the software without extensive custom modifications.

Management's Response: The CIO plans to investigate the cited agencies, and others as appropriate, to obtain information on the operations and maintenance cost models, and has chartered this effort as part of a Governance Board initiative to assess options for allocating HR Connect costs to the user base.

Reported Financial Information Was Not Reliable

Each year, the HR Connect Program Office reports the costs and savings expected from the HR Connect system. In its FY 2005 Capital Asset Plan and Business Case (submitted in September 2003), the HR Connect Program Office reported that, over the 15-year life of the program, it

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

expected to incur total project investment and operational costs of about \$415 million and receive total benefits of \$899 million. As such, the HR Connect Program Office expects a cumulative net savings of \$484 million. However, the HR Connect Program Office does not have the data and calculations needed to support these estimated costs, benefits, and savings.

Adjustments were made to the return on investment to show a higher payback

Since the beginning of the project, there have been changes in the expected savings and costs of the HR Connect system. Program officials have reported the changes in the expected return on investment. However, the HR Connect Program Office could not provide the data to support reducing the expected system costs or increasing the expected savings.

From FY 1997 to FY 1999, the projected return on investment for the HR Connect system project declined substantially, and the HR Connect Program Office became concerned that, without significant cost reductions, the result of the projections over a 10-year life cycle would be an unfavorable return on investment. The HR Connect Program Office sponsored a review which resulted in a number of recommended changes, including:

- Centralized program management.
- A Federal Government-owned development facility and a single shared production environment.
- Decreased contractor costs as a result of a new competition.

As a result of these recommendations, the HR Connect Program Office reported \$59 million less in projected costs and \$29 million more in expected savings. This increased the projected return on investment from \$1.45 to \$2.31 (per dollar invested) in May 2000. However, from FYs 2000 through 2002, costs continued to increase, causing the return on investment to decline again. The HR Connect Program Office made subsequent adjustments, which included additional savings from employee leave reporting, but

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

subsequently dropped these savings. It then used OMB Circular A-76⁶ as justification for extending the system's economic life cycle from 10 to 15 years. In its FY 2005 Business Case Analysis, the HR Connect Program Office reported that this was the primary reason for increasing the anticipated savings by \$305 million and increasing the projected return on investment to \$3.26.⁷ Table 3 provides information on the reported return on investment for the HR Connect system.

Table 3: Changes to the Reported HR Connect Program Return on Investment

Date	Program Costs (in millions)	Program Savings (in millions)	Return on Investment for each \$1 Invested ⁸
Sep. 1997	\$317	\$681	\$2.97
Jul. 1998	335	605	2.40
Aug. 1999	343	605	2.28
Dec. 1999	321	428	1.45
May 2000 ⁹	262	457	2.31
Oct. 2001	297	526	2.11
Feb. 2002 ¹⁰	-	-	2.03
Sep. 2002 ¹¹	314	594	2.39
Nov. 2002	327	594	2.33
Sep. 2003 ¹²	415	899	3.26

Source: HR Connect Program Office business case analysis submissions to the OMB.

⁶ OMB Circular A-76, *Competitive Sourcing Guidelines* (1996).

⁷ The Department of the Treasury reduced this to \$3.02 to reflect a 15 percent risk adjustment factor.

⁸ The computation for the Return on Investment includes a factor to discount for the time value of money.

⁹ Implemented the recommendations based on the program review.

¹⁰ The HR Connect Program Office did not report a dollar value for project costs or benefits for February 2002.

¹¹ Added leave notification capability to the expected benefits.

¹² The Department of the Treasury reduced this to \$3.02 to reflect a 15 percent risk adjustment factor.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Although OMB Circular A-76 guidance was applicable for competitive sourcing planning, we do not believe the HR Connect Program Office had an adequate basis to use this guidance for the HR Connect system. We could not find any other Federal Government agency that used this criterion for system economic life cycle planning. In fact, one Federal Government agency specifically discouraged use of the OMB Circular A-76 guidance because it considered 15 years as “unrealistic” for automated data processing systems. All of the agencies we identified with published criteria for a system life cycle used a maximum of 10 years, which is consistent with the HR Connect Program Office’s original life cycle for the HR Connect system. We could not identify new criteria or additional developments in technology that supported the HR Connect Program Office’s decision to extend the life cycle to 15 years. The fact that many of the expected functions such as payroll, recruiting, and training administration were never implemented because of changing requirements or improvements in technology, further indicates that a 15-year life cycle is not appropriate for calculating the return on investment for the HR Connect system.

Consistent with other Federal Government agencies, the IRS Business Systems Modernization Office recommends project investment decisions assume that an information technology system’s life will be 10 years. The HR Connect Program Office used a more appropriate economic life cycle estimate when it originally made the decision to invest in the HR Connect system. However, after the project’s return on investment declined, it adjusted the life cycle, which improved the reported return on investment.

Projected savings were unsubstantiated

Even if the HR Connect system is in place for its projected 15-year life cycle, the underlying analysis provided by the HR Connect Program Office does not support the savings claimed. In the FY 2005 Business Case Analysis submission, the HR Connect Program Office reported the HR Connect system would provide \$899 million in savings over the 15-year life of the system. Table 4 shows the components of the expected savings reported to the OMB.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Table 4: HR Connect System Expected Savings Details From the HR Connect Program Office's FY 2005 Business Case Analysis Submission to the OMB

Type of Savings	Reported Value (in millions)
Productivity Savings	\$633
Operational Savings	116
Other Savings	150
Total Expected Savings	\$899

Source: FY 2005 HR Connect Program Office Business Case Analysis submission to the OMB.

Approximately \$454 million of the \$899 million in claimed savings was attributed to projected staff reductions or reassignments at the IRS due to productivity savings at the IRS. We discussed the projected savings from the HR Connect system with IRS Office of the Chief Human Capital Officer officials. They stated that they have achieved efficiencies because of other efforts such as reorganization and the implementation of CareerConnector system recruiting software. They did not attribute any reduction in the number of employees to the implementation of the HR Connect system. The HR Connect Program Office reported additional savings of over \$57 million from facilities, equipment, and rent for these employees and savings of over \$18 million in training and travel associated with these employees.

In addition, the HR Connect Program Office reported approximately \$150 million in "other savings" resulting from self-service implementation. The savings were explained in the FY 2005 Business Case Analysis submission as follows:

Other savings have increased from \$42.4 million to \$150.4 million as a result of the effort the program office expended in capturing the productivity savings associated with self-service implementation. The servicing ratio algorithm used to project productivity savings does not take into effect the savings that can be achieved outside the HR community. Those savings include reduced

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

processing times for employees, supervisors, and managers performing HR related functions. The program office has elected to place those savings in the Other category, which significantly increased the savings reported.

However, the HR Connect Program Office did not produce evidence that these projected time efficiencies by employees and managers have been attained or will result in any staff reassignments or reductions. Furthermore, there are approximately 35,000 IRS employees who do not have direct access to the HR Connect, CareerConnector, or Employee Express systems. The IRS has been trying to resolve this issue. Until this is resolved, the IRS must use paper processes for these employees to make changes to personal information and apply for job openings and will not achieve efficiencies that have been attributed to “self-service.”

In the FY 2004 Business Case Analysis, the HR Connect Program Office attributed \$173.8 million of “productivity savings” to implementing the leave notification capability of PeopleSoft Federal HRMS[®] software but could not provide supporting data to show how it computed this savings or support that the Department of the Treasury was spending \$173.8 million on employee leave requests and notification. The HR Connect Program Office later realized this projected savings was not realistic and decided to no longer report such savings.

Project costs were not validated

The FY 2005 Business Case Analysis submission to the OMB showed actual costs through FY 2004 of \$228 million and projected project costs of \$415 million over the 15-year life of the project. Table 5 provides the cost categories shown on the business case analysis.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Table 5: HR Connect System Cost Details From the HR Connect Program Office's FY 2005 Business Case Analysis Submission to the OMB

Type of Cost	Actual Costs¹³ Through FY 2004 (in millions)	Projected Total Project Costs (in millions)
Investment Costs	\$160	\$173
Operating and Maintenance Costs	39	185
Federal Employee Salaries	29	57
Total	\$228	\$415

Source: FY 2005 HR Connect Program Office Business Case Analysis submission to the OMB.

The HR Connect Program Office budget specialist told us the contractor prepared the cost information for external reporting, and the HR Connect Program Office did not validate the information. The HR Connect Program Office budget personnel also informed us there were indirect costs that were not included as part of the total cost of implementation. These costs included the space occupied by the contractor for the duration of the contract and additional overhead costs related to the HR Connect system implementation. HR Connect Program Office management was unable to provide cost information for these items. As such, the Program Office does not have assurance that it made decisions based on reliable and complete cost data.

Recommendation

5. The CIO should properly account for the HR Connect system costs and assess the likelihood of projected benefits based on the system's limitations and an assessment of the economic systems life, so future decisions are based on correct information.

Management's Response: The CIO plans to hire an independent consultant to assist in establishing a

¹³ The FY 2004 costs were projected as of September 2003 based on the approved program budget.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

cost-accounting method for tracking costs and quantifying benefits by cost categories and by HR Connect customers. Using the knowledge gained from the process analysis and industry best practices, management believes oversight of the HR Connect Program will be improved.

Office of Audit Comment: Given the problems we have noted with contractor oversight, we have concerns with regard to the CIO's plans to hire an independent consultant to assist in establishing a cost accounting method. We believe that the CIO should first seek the assistance of cost accounting experts within the Department of the Treasury through the Assistant Secretary for Management/CFO.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the implementation of the Department of the Treasury's HR Connect human resources system in the Internal Revenue Service (IRS). We evaluated the capabilities of the software, the management of the program, and the reported costs of implementation and expected savings. To accomplish our objective, we:

- I. Compared the system capabilities with the original expectations.
 - A. Determined whether system requirements were defined.
 - B. Determined how the IRS concluded the HR Connect system would satisfy its system requirements.
 - C. Reviewed the Business Case Analysis submission that supported the decision to implement the HR Connect system and the subsequent business case analysis submissions that reflected changes to system capabilities.
 - D. Determined whether the IRS retired existing systems expected to be replaced by the HR Connect system.
 - E. Determined whether there were modifications to the software or additional software was purchased to meet the system requirements.
- II. Assessed the management of the HR Connect program.
 - A. Determined whether the IRS is meeting its scheduled time periods for deployment.
 - B. Reviewed preparation phases and actions to assess readiness for deployment.
 - C. Assessed management decisions that affected costs, benefits, and the implementation schedule.
 - D. Compared the capabilities, costs, benefits, and implementation schedule with those in other Federal Government agencies that have implemented similar software.
 - E. Assessed the previous IRS attempt to develop the Integrated Personnel System, which was anticipated to be the single system used for processing personnel and payroll actions.
 - F. Reviewed the HR Connect Program Office's contractor oversight and contract deliverables.
- III. Assessed the reported costs of implementation and the expected benefits.
 - A. Determined how the operational costs to implement the HR Connect system were estimated.

**The Department of the Treasury's HR Connect Human
Resources System Was Not Effectively Implemented**

- B. Determined whether a cost/benefit analysis was conducted and evaluated.
- C. Determined whether and why costs had escalated since the decision to implement.
- D. Interviewed HR Connect Program Office officials to determine how financial information is compiled and whether all costs have been reported.
- E. Assessed the criteria and rationale for changes made to the reported return on investment.
- F. Interviewed IRS officials to determine the reasonableness of the expected savings.

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Michael E. McKenney, Director

Carl L. Aley, Audit Manager

Richard J. Viscusi, Lead Auditor

Joseph Smith, Senior Auditor

Britt M. Molitoris, Auditor

**The Department of the Treasury's HR Connect Human
Resources System Was Not Effectively Implemented**

Appendix III

Report Distribution List

Deputy Assistant Secretary for Information Systems and Chief Information Officer MI
Deputy Assistant Secretary Office for Organization and Change Management MH
Director, HR Connect Program Office MH
Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Chief, Agency-Wide Shared Services OS:A
Chief Financial Officer OS:CFO
Chief Human Capital Officer OS:HC
Chief Information Officer OS:CIO
Associate Chief Financial Officer for Internal Financial Management OS:CFO:I
Director, Employee Support Services OS:A:EES
Director, Planning and Measures OS:HC:M
Director, Internal Management Modernization OS:CIO:B:PM:IMM
Director, Office of Legislative Affairs CL:LA
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Management Controls OS:CFO:AR:M
Audit Liaisons:
 Deputy Commissioner for Operations Support OS
 Chief, Agency-Wide Shared Services OS:A
 Chief Financial Officer OS:CFO
 Chief Human Capital Officer OS:HC
 Chief Information Officer OS:CIO

The Department of the Treasury’s HR Connect Human Resources System Was Not Effectively Implemented

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.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; approximately \$530 million reported in estimated savings for Full-Time Equivalent (FTE)¹ reductions or redirections at the Internal Revenue Service (IRS) (see page 15).

Methodology Used to Measure the Reported Benefit:

The HR Connect Program Office reported the following FTE savings from the implementation of the HR Connect system at the IRS:

Staff redirections	\$454.4 million
Training and travel	\$18.2 million
Facilities, equipment, and rent	<u>\$57.1 million</u>
Total	\$529.7 million

However, officials in the IRS Office of the Chief Human Capital Officer stated that they have achieved efficiencies because of other efforts such as reorganization and the implementation of CareerConnector system recruiting software. They did not attribute any reduction in the number of employees to implementation of the HR Connect system.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; \$150 million reported in estimated “other savings” (see page 15).

Methodology Used to Measure the Reported Benefit:

The HR Connect Program Office reported \$150 million in “other savings,” which it attributed to reductions or redirections in staff due to the implementation of the employee and manager self-service capabilities of the HR Connect system. These cost savings are for the non-Human Resources function employees who will have the capability to initiate actions that were formerly processed by Human Resources function personnel. However, the HR Connect Program Office could not produce evidence that showed shifting work from the Human Resources function to

¹ A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2004, 1 FTE was equal to 2,096 staff hours.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

other IRS functions would create opportunities to reduce the size of the staffs in those functions. For example, the HR Connect Program Office reported annual savings of \$301,189 by allowing employees to change their emergency contact phone numbers but could not demonstrate that the IRS would reduce staff because of this capability. In addition, the savings included approximately \$8.5 million for recruiting capabilities that were already available using the IRS' CareerConnector system software.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Actual; \$21 million spent for the Integrated Personnel System (IPS), which was anticipated to be the single system used for processing personnel and payroll actions, but was never implemented (see page 7).

Methodology Used to Measure the Reported Benefit:

We analyzed information available from the IPS implementation and an extract from the IRS Automated Financial System.² Based on this work, we determined the IRS had spent \$21 million over a 5-year period for the IPS. The IPS was never implemented and did not provide any significant benefits to the IRS. Better business case analyses as well as improved project management and contractor oversight should help avoid this type of inefficient use of resources in the future.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Actual; \$20 million expended for 2 HR Connect system contracts that were terminated prematurely (see page 7).

Methodology Used to Measure the Reported Benefit:

We analyzed information provided by IRS Procurement function personnel and identified nearly \$20 million expended for 2 contracts in effect between Fiscal Years (FY) 1998 and 2000. The 2 contracts were valued at a combined \$110 million. The HR Connect Program Office terminated the 2 contracts before completion because it was having difficulty overseeing the work of 2 competing vendors and awarded a new single \$110 million contract for similar services in FY 2000. The HR Connect Program Office could not provide evidence that the terminated contracts produced benefits or reduced the cost of the combined contract. Better business case analyses as well as improved project management and contractor oversight should help avoid this type of inefficient use of resources in the future.

² A computer-based financial accounting system used by the IRS to track appropriations and expenditures.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Appendix V

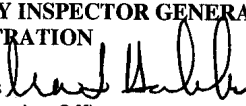
Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220
JAN 18 2005

RECEIVED
JAN 18 2005

MEMORANDUM FOR GORDON C. MILBURN III
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT
TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM: Ira L. Hobbs 
Chief Information Officer

SUBJECT: Draft TIGTA Report: The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented, dated December 3, 2004 (Audit #2003-10-022)

Thank you for the opportunity to review the draft audit report. We appreciate the discussion of an earlier version and acknowledge the changes you made concerning our comments. With the realignment of the HR Connect program to the Office of the Chief Information Officer (OCIO) in September 2004, we have now completed the transfer of all program responsibilities, including continued audit follow up. Effective with this response, the OCIO will handle all TIGTA inquires on HR Connect. It is our intent to use this report to enhance HR Connect program performance going forward and to strengthen oversight. Attached please find our response to your recommendations, and to the outcome measures that are addressed in the final four bullets beginning on page 2. Also, we identified no materials that require FOIA protection.

We would like you to be aware that:

- Despite the challenges of designing and implementing this large and complex program over a period of years, HR Connect is now successfully deployed throughout Treasury in eleven bureaus currently using the National Finance Center (NFC) for payroll services. HR Connect delivered 26 broad functions and is widely used in a self-service delivery mode by managers and employees throughout Treasury and by components of the Departments of Homeland Security and Justice. HR Connect is also being deployed at the Department of Housing and Urban Development. Through mid-September 2004, over 1.8 million tasks have been completed in HR Connect.
- Treasury rigorously reviewed the basis for its actual and estimated costs and benefits to improve the reliability of its assumptions, financial and metric data that established a solid foundation for enhanced program management, with the FY2006 Exhibit 300 submission to OMB. That submission also documented the incorporation of CareerConnector (which became operational in FY2004) into the HR Connect suite of services. We have taken steps to improve program oversight. With the realignment of the HR Connect program under the OCIO, we continued the governance structure that includes bureau and customer participation at the executive level (to recommend strategic direction and enhancements) and added an Executive Steering Committee, with membership composed of the Treasury's Chief Human Capital Officer (CHCO), the Deputy CHCO, the Chief Information Officer (CIO), and Associate CIO - HR Connect, with decision authority, to guide the program through its operations and maintenance phase of the life-cycle.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Specifically, our comments to the audit findings are as follows:

- The identification of factors that extended the IRS deployment accurately pinpoints several that were outside the control of the program office, such as filing season priorities. As of May 2004, all IRS employee records and transactions were being processed through HR Connect; thus completing IRS implementation.
- The comparison of different PeopleSoft implementations across government as a measure of effective management assumes similarity. However, the report does not account for differences in scope, methodology, and business requirements. The comparative data does not explain what is included in the costs of these implementations, making a comparison to HR Connect costs inconclusive, other than to say the latter took longer and cost more.
- IRS officials confirm that their HR Connect Working Capital Fund payments, from FY 2003 to present, included over \$3 million for CareerConnector. The HR Connect Program Office also funded \$1.2 million for CareerConnector to host support and system integration/data feeds. The full recruitment solution was provided by coupling the requisition capability, competencies, and announcement criteria already operational in HR Connect with the best features of CareerConnector (e.g., on-line rating and ranking). The agreement between Treasury and IRS to integrate CareerConnector into the HR Connect suite of services as a component of HR Connect recruitment functionality was effective for FY2003, although CareerConnector was not operational for use by any Treasury bureau until November 2003, when IRS began its pilot.
- We disagree that the projected productivity savings of \$454 million were unsubstantiated. Each year, as part of the Exhibit 300 submission, the IRS provides the HR Connect Program Office with FTE savings actually achieved and those estimated. The IRS Human Capital Office and Agency-Wide Shared Services confirm the anticipated FTE savings previously identified as being attributable to efficiencies gained by implementing HR Connect/Career Connector remain accurate. Savings at the IRS occurred in increments beginning in FY 2004 and are projected to reach the end-state level of 743 FTE by the end of FY 2006. As the incremental savings occur each year they are applied against critical IRS funding shortfalls during that fiscal year and/or are reinvested to mission critical programs via the budget process. IRS identifies and pools Service-wide savings, prioritizes needs, and redirects the savings for unfunded costs (e.g., pay raise) and high-priority programs.
- We have reevaluated and improved HR Connect documentation that reflects the benefits attributable to program implementation. However, we disagree that \$150 million in "other savings" (i.e., time freed up by using HR Connect to perform self-service actions) is unsubstantiated. We used sophisticated commercial software that compares pre-HR Connect process steps and data assumptions provided by the bureaus, with those created by the HR Connect system. This software calculates potential savings that could be realized by full HR Connect utilization. A report documenting the results of this analysis was provided to each bureau.
- IRS officials disagree that \$21million spent on the Integrated Personnel System (IPS) was wasted. IPS documentation was used to jump-start the HR Connect deployment at IRS; that included the IPS Fit Gap analysis; IPS Master Project Plan, Transition to Support Plan, Communications Plan, and readiness checklists. Also, transfer of highly specialized IRS and PeopleSoft knowledge occurred with the reassignment of five IPS team members to the IRS HR Connect team.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

- We disagree that the \$20 million expended on two contracts by the Program Office was wasted. By 1999 a personnel processing system was produced and an NFC interface was operational for the Office of the Comptroller of the Currency and the Bureau of Alcohol Tobacco and Firearms. Recognizing the potential for improvements, the Program Office adopted the recommendation of an independent consultant to cancel the contracts to improve business efficiencies.

If you have questions, please contact me on (202) 622-0021 or members of your staff can contact Lynn Eddy, Associate CIO – HR Connect, on (202) 622-1520. For questions concerning audit follow-up, please contact Jose Villar on (202) 622-6141.

Attachment

cc: Acting Assistant Secretary for Management,
Department of the Treasury

Deputy Commissioner, Support Services
Internal Revenue Service

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Attachment

Draft TIGTA Report: The Department of the Treasury's HR Connect Human Resources Systems Was Not Effectively Implemented, dated December 3, 2004 (TIGTA Audit 2003-10-022)

RECOMMENDATION 1: Ensure future business case analysis submissions to the OMB explain how system functions have been revised and how these changes have affected the expected return on investment and schedule. The business case analysis submission should reflect the costs, expected benefits, and justifications for the changes. In addition, the business case analysis submissions should include the status of systems that were expected to be replaced and allow for comparison from year to year.

CORRECTIVE ACTION: For the FY2006 Exhibit 300 submission to OMB in October 2004, Treasury rigorously reviewed the basis for HR Connect's actual and estimated costs and benefits, and reconciled the reliability of its assumptions, financial and metric data with program accounting, and established a solid basis for improved program management. Acquisitions of major system functions are not anticipated after FY2005, during which the transition to O&M will occur. Treasury has established a governance structure to provide strategic direction and review of any recommended changes to HR Connect. An Executive Steering Committee is now in place to review recommendations from the governance body and make final program direction decisions. The FY2006 Exhibit 300 is the product of the OCIO Capital Planning and Investment Control (CPIC) process and decisions made during the FY2006 budget process reflect the many benefits implementation will bring to human resources processes.

COMPLETED: October 15, 2004

RESPONSIBLE OFFICIAL: Associate CIO - HR Connect

CORRECTIVE ACTION: The HR Connect Program Office is in the process of establishing a tracking system to monitor bureau disposition of legacy systems to execute year-to-year comparisons and to provide an accountability of the bureaus' retirement of such systems.

PROPOSED IMPLEMENTATION DATE: April 30, 2005

CORRECTIVE ACTION MONITORING PLAN: We monitor agreed-to corrective actions by entering them into the OCIO tracking system. Corrective actions are monitored on a quarterly basis until completion.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

RECOMMENDATION 2: Reevaluate the duties that have been delegated to the contractor by the HR Connect Program Office to ensure the HR Connect Program Office retains the duties and information necessary for proper financial and technical oversight.

CORRECTIVE ACTION: With the award of a new HR Connect support contract in November 2004, we have reduced the number of contractors supporting HR Connect from approximately 112 to 34 and restructured program functions to assure a clear federal accountability for program decisions throughout the HR Connect organization. These actions reflect program transition from development/deployment to the operations and maintenance (O&M) phase. Further, we have filled a critical management vacancy in our business operations organization with a permanent, federal employee experienced in financial analysis and business case planning.

PROPOSED IMPLEMENTATION DATE: April 30, 2005

RESPONSIBLE OFFICIAL: Associate CIO - HR Connect

CORRECTIVE ACTION MONITORING PLAN: We monitor agreed-to corrective actions by entering them into the OCIO tracking system. Corrective actions are monitored on a quarterly basis until completion.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

RECOMMENDATION 3: Identify the number, costs, and benefits of custom modifications that were made to the software for the Department of the Treasury and each bureau. This information should also be collected and considered for future software modification requests and will be needed to provide proper contractor oversight and to properly compare costs of upgrades with the benefits expected.

CORRECTIVE ACTION: The Program Office has maintained documentation for each HR Connect custom modification for the Department and/or business need(s) of each bureau. We retain information on these modifications in sufficient detail to meet future program needs, (e.g., application upgrades). Because we are using this audit report to improve program performance going forward, we believe there is little business benefit to retroactively compute the cost per modification. Therefore, we will not identify the cost benefits of custom modifications previously made to the system. However, beginning now and in the future, we will undertake a more comprehensive assessment of the cost/benefits justification and the impact of each custom modification while capturing those results as part of our configuration control process. This includes the cost of each change request (CR) in its entirety; not just the task order as was previously done.

PROPOSED IMPLEMENTATION DATE: April 30, 2005

RESPONSIBLE OFFICIAL: Associate CIO - HR Connect

CORRECTIVE ACTION MONITORING PLAN: We monitor agreed-to corrective actions by entering them into the OCIO tracking system. Corrective actions are monitored on a quarterly basis until completion.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

RECOMMENDATION 4: Coordinate with other agencies which have implemented PeopleSoft HRMS[®] software, such as the Coast Guard and USDA, to achieve a more cost-effective model for operating and maintaining the HR Connect system. This would include evaluating how these agencies were able to implement the software without extensive custom modifications.

CORRECTIVE ACTION: We will investigate the cited agencies, and others as appropriate, to obtain information on their operations and maintenance cost models. This effort has already been chartered as a part of a Governance Board initiative to assess options for allocating HR Connect costs to the user base. Because we are using this audit to improve future program performance going forward, we believe there is little business benefit in assessing other agencies with regard to custom modifications. We do not plan to undertake this retroactive evaluation.

PROPOSED IMPLEMENTATION DATE: April 30, 2005

RESPONSIBLE OFFICIAL: Associate CIO - HR Connect

CORRECTIVE ACTION MONITORING PLAN: We monitor agreed-to corrective actions by entering them into the OCIO tracking system. Corrective actions are monitored on a quarterly basis until completion.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

RECOMMENDATION 5: The CIO should properly account for the HR Connect system costs and assess the likelihood of projected benefits based on the system's limitations and an assessment of the economic systems life, so future decisions are based on correct information.

CORRECTIVE ACTION: For the FY2006 Exhibit 300 submission to OMB in October 2004, Treasury rigorously reviewed actual and estimated costs/benefits for HR Connect, improving the reliability of assumptions, financial and metric data, and established a solid basis for improved program management. Further, the reinvigorated capital investment and control process within Treasury assures on-going review of this investment on a quarterly basis; thus offering continuous opportunities to fine-tune expectations.

Additionally, we are actively seeking to minimize O&M costs by hiring an independent consultant to assist in establishing a cost-account method for tracking costs and quantifying benefits by cost categories and by HR Connect customers. Utilizing the knowledge gained from the analysis of our processes and industry best practices, Treasury has and will improve its oversight of this important program.

COMPLETED: October 15, 2004

RESPONSIBLE OFFICIAL: Associate CIO - HR Connect

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Appendix VI

Office of Audit Comments on Management's Response

Although Department of the Treasury management agreed with the findings and recommendations in this report, its response included some general comments and assertions about the HR Connect Program that we believe warrant additional comment. Furthermore, management disagreed with certain outcome measures, and we believe that management does not have an adequate basis for disagreement. We have included portions of management's response and our related comments below.

Management's Response:

- Despite the challenges of designing and implementing this large and complex program over a period of years, the HR Connect system is now successfully deployed throughout the Department of the Treasury in 11 bureaus currently using the National Finance Center (NFC) for payroll services. The HR Connect system delivered 26 broad functions and is widely used in a self-service delivery mode by managers and employees throughout the Department of the Treasury and by components of the Departments of Homeland Security and Justice. The HR Connect system is also being deployed at the Department of Housing and Urban Development. Through mid-September 2004, over 1.8 million tasks have been completed in the HR Connect system.

Office of Audit Comment:

PeopleSoft Federal Human Resources Management Systems[®] (HRMS) software is a commercial off-the-shelf (COTS) software that the Department of the Treasury selected because of the functions it offered without extensive modification. However, the Department of the Treasury has spent many years modifying and implementing this commercially available software. Management does not disclose how much of the functionality the HR Connect system delivered was already available from the COTS product. We do not agree that the HR Connect system delivered 26 broad functions. Examples of the 26 broad functions that Department of the Treasury management cited included "Web Enablement," "Password Management System," and "PeopleSoft 8.3 Upgrade." In addition, some functions were either links or interfaces to other software packages. For example, "Training Administration" is an interface to the bureaus' own Learning Management Systems. "Recruitment" is an interface to another COTS product, CareerConnector.

Because the HR Connect system is now the only option for bureaus to process personnel actions, it is expected that there would be a significant number of tasks completed. Reporting that number does not provide perspective on how the software package is improving operations, such as how many of these tasks would have been performed manually prior to the implementation of the PeopleSoft HRMS[®] software. Moreover, management does not define what these tasks

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

represent. The tasks reported included corrections to employees' personal information that was erroneously populated when the HR Connect system went online, such as changes to employees' gender and birth dates.

Management's Response:

- The Department of the Treasury rigorously reviewed the basis for its actual and estimated costs and benefits to improve the reliability of its assumptions, financial, and metric data that established a solid foundation for enhanced program management, with the Fiscal Year (FY) 2006 Business Case Analysis (Exhibit 300) submission to the Office of Management and Budget. That submission also documented the incorporation of CareerConnector (which became operational in FY 2004) into the HR Connect suite of services. The Department of the Treasury has taken steps to improve program oversight. With the realignment of the HR Connect Program Office under the Office of the CIO, the Department of the Treasury continues the governance structure that includes bureau and customer participation at the executive level (to recommend strategic direction and enhancements) and added an Executive Steering Committee, with membership composed of the Treasury's Chief Human Capital Officer (CHCO), the Deputy CHCO, the Chief Information Officer (CIO), and Associate CIO - HR Connect, with decision authority to guide the program through its operations and maintenance phase of the life-cycle.

Office of Audit Comment:

The FY 2006 submission was the only Exhibit 300 that we did not review during the audit, because it was submitted after the completion of our field work. Although management claims to have taken prudent steps before submitting the FY 2006 Exhibit 300, it had not taken such efforts in its previous submissions. In addition, the inclusion of CareerConnector in the Exhibit 300 does not authenticate management's assertion that it is part of the HR Connect system. CareerConnector is a stand-alone COTS product that could have been implemented without the PeopleSoft HRMS[®] software.

Management's Response:

- The identification of factors that extended the Internal Revenue Service (IRS) deployment accurately pinpoints several that were outside the control of the HR Connect Program Office, such as filing season priorities. As of May 2004, all IRS employee records and transactions were being processed through the HR Connect system, thus completing IRS implementation.

Office of Audit Comment:

The audit report included some of the reasons the Department of the Treasury cited as causes for the delay in implementing the software. However, some of these reasons were not out of the control of the HR Connect Program Office. For example, the IRS' filing season priorities are recurring and predictable and should have been included in the deployment schedule.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Management's Response:

- The comparison of different PeopleSoft implementations across the Federal Government as a measure of effective management assumes similarity. However, the report does not account for differences in scope, methodology, and business requirements. The comparative data does not explain what is included in the costs of these implementations, making a comparison of HR Connect system costs inconclusive, other than to say the latter took longer and cost more.

Office of Audit Comment:

The report notes the similarities and differences in the functionalities and provides a listing of the core functionalities that we compared (see page 8). Although we agree that benchmarking does not provide for an identical comparison, we included it at the request of Assistant Secretary of the Treasury for Management/Chief Financial Officer.

Management's Response:

- IRS officials confirmed their HR Connect system Working Capital Fund payments, from FY 2003 to present, included over \$3 million for CareerConnector. The HR Connect Program Office also funded \$1.2 million for CareerConnector to host support and system integration/data feeds. The full recruitment solution was provided by coupling the requisition capability, competencies, and announcement criteria already operational in the HR Connect system with the best features of CareerConnector (e.g., online rating and ranking). The agreement between the Department of the Treasury and IRS to integrate CareerConnector into the HR Connect system suite of services as a component of the HR Connect system's recruitment functionality was effective for FY 2003, although CareerConnector was not operational for use by any Department of the Treasury bureau until November 2003, when IRS began its pilot.

Office of Audit Comment:

We agree with IRS officials, who maintain that CareerConnector is a stand-alone COTS software product that is not dependent on the HR Connect system. To state that CareerConnector is part of the HR Connect system's suite of functions is misleading; the recruiting portion of the HR Connect system suite was actually never used. PeopleSoft Federal HRMS[®] software provides a suite of functions which includes recruiting; however, HR Connect Program management did not implement this function because they concluded that it was not feasible to modify PeopleSoft Federal HRMS[®] software to meet the Department of the Treasury's requirements. Instead, an interface was provided to the separate CareerConnector program. While this became a new service for other Department of the Treasury employees, it was already available to IRS employees and could have been provided to other Department of the Treasury employees without implementation of PeopleSoft Federal HRMS[®] software.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Management's Response:

- The Department of the Treasury disagrees that the projected productivity savings of \$454 million were unsubstantiated. Each year, as part of the Exhibit 300 submission, the IRS provides the HR Connect Program Office with Full-Time Equivalent (FTE)³ savings actually achieved and those estimated. The IRS Human Capital Office and Agency-Wide Shared Services confirm the anticipated FTE savings previously identified as being attributable to efficiencies gained by implementing the HR Connect/CareerConnector remain accurate. Savings at the IRS occurred in increments beginning in FY 2004 and are projected to reach the end-state level of 743 FTE by the end of FY 2006. As the incremental savings occur each year, they are applied against critical IRS funding shortfalls during that fiscal year and/or are reinvested to mission critical programs via the budget process. The IRS identifies and pools Service-wide savings, prioritizes needs, and redirects the savings for unfunded costs (e.g., pay raise) and high-priority programs.

Office of Audit Comment:

We confirmed that the IRS Chief Human Capital Officer did not attribute any savings to the HR Connect system. The implementation of the HR Connect system coincided with a major restructuring and consolidation of the IRS Human Capital Office. Because of concerns about whether significant benefits would be actually achieved through the implementation of the HR Connect system, the IRS Chief Human Capital Officer directed program managers not to base personnel reductions on the HR Connect Program Office's promised savings. Instead, program officials made reductions based on efficiencies gained from the reorganization and consolidation of responsibilities of the Office of Strategic Human Resources and the Office of Labor Relations under the new single Human Capital Office. In addition, the IRS has achieved savings from the implementation of CareerConnector but maintains that this is a stand-alone software package and not a benefit of implementing the HR Connect system. IRS officials advised us that they notified Department of the Treasury management that they agreed with the comments attributed to them in this audit report.

Management's Response:

- The Department of the Treasury has reevaluated and improved HR Connect system documentation that reflects the benefits attributable to program implementation. However, the Department of the Treasury disagrees that \$150 million in "other savings" (i.e., time freed up by using the HR Connect system to perform self-service actions) is unsubstantiated. The Department of the Treasury used sophisticated commercial software that compared pre-HR Connect system process steps and data assumptions provided by the bureaus, with those created by the HR Connect system. This software calculates potential savings that

³ A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2004, 1 FTE was equal to 2,096 staff hours.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

could be realized by full HR Connect system utilization. A report documenting the results of this analysis was provided to each bureau.

Office of Audit Comment:

The HR Connect Program Office did not provide us with a demonstration of the software that computed the savings or all of the assumptions that it used when computing savings. The use of software does not ensure that correct assumptions were made in computing savings. Based on the May 2003 reports that the HR Connect Program Office provided to each bureau, which documented the results of this analysis, there is evidence that the savings are not reliable. The HR Connect Program Office reported \$173.8 million in leave notification savings in its FY 2004 Exhibit 300 for all bureaus. However, Program officials later realized that these savings were unsubstantiated and removed them from subsequent Exhibit 300 submissions without comment. Management had many opportunities to justify the assertions made about the savings attributed to the HR Connect system but was never able to provide adequate data or sound analysis to justify the savings claimed.

Management's Response:

- IRS officials disagree that \$21 million spent on the Integrated Personnel System (IPS) was wasted. IPS documentation was used to jump-start the HR Connect system deployment at the IRS that included the IPS Fit Gap analysis, IPS Master Project Plan, Transition to Support Plan, Communications Plan, and readiness checklists. Also, transfer of highly specialized IRS and PeopleSoft knowledge occurred with the reassignment of five IPS team members to the IRS HR Connect team.

Office of Audit Comment:

We attempted to review the products and documentation that were produced by the IPS team. However, the head of the IRS implementation team informed us that there was nothing of substance to review. Furthermore, the HR Connect Program Office notified us that the IPS produced "very little of relevance." While there may have been some intangible benefits, it is evident that the IRS did not get a \$21 million product, particularly when compared with the 2 other agencies that we contacted, who were able to completely implement the PeopleSoft HRMS[®] software for the same approximate cost of the IPS project (\$15 million for the United States Department of Agriculture, and \$24 million for the Coast Guard).

Management's Response:

- The Department of the Treasury disagrees that the \$20 million expended on 2 contracts by the HR Connect Program Office was wasted. By 1999 a personnel processing system was produced and an NFC interface was operational for the Office of the Comptroller of the Currency and the Bureau of Alcohol, Tobacco, and Firearms. Recognizing the potential for improvements, the HR Connect Program Office adopted the recommendation of an independent consultant to cancel the contracts to improve business efficiencies.

The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented

Office of Audit Comment:

The HR Connect Program Office released 1 of the 2 contractors for nonperformance, after \$20 million was expended. The 2 contracts totaled \$110 million, and after spending the \$20 million, the work was re-awarded under a single \$110 million contract to 1 contractor. The HR Connect Program Office did not reduce the single contract by the \$20 million that it had already expended on the previous 2 contracts.