

**Telecommunications Costs Controls
Have Not Been Effectively Implemented
and Should Continue to Be Improved
and Monitored**

September 2004

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INSPECTOR GENERAL
for TAX
ADMINISTRATION

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MEMORANDUM FOR CHIEF INFORMATION OFFICER

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

This report presents the results of our review of the Internal Revenue Service's (IRS) controls over telecommunications costs. The overall objective of this review was to evaluate the effectiveness of the controls over telecommunications costs.

In summary, the Enterprise Networks organization is responsible for providing all forms of electronic communications (i.e., voice, data, video, and wireless) in the most efficient and effective manner. Since 1993, the Treasury Inspector General for Tax Administration, formerly the Inspection function of the IRS, has performed several audits and found that the IRS did not have effective controls over its telecommunications costs. As a result, in 1994 the IRS began tracking the internal controls over its telecommunications costs as a material weakness.¹

On October 16, 2003, the IRS notified the Department of the Treasury of its intent to downgrade the material weakness to a reportable condition.² The IRS' decision was based upon the completion of several corrective actions, including the implementation of the Telecommunications Asset Tool (TAT) system in June 2003. The TAT system is a web-based telecommunications resource management system designed to allow local and national offices to initiate, process, approve, review, and manage telecommunications resources to identify potential waste, fraud, and abuse. As of April 2004, TAT system expenditures totaled \$5.1 million. The IRS also created an

¹ A material weakness is a control deficiency the agency head determines to be significant enough to be reported outside the agency.

² A reportable condition is a problematic issue that warrants special management attention to ensure improvement, rather than deterioration to the point at which it becomes a material weakness.

automated process to compile an inventory of cellular telephones and developed a system that provides online ordering and inventory capability for phone cards.

Other corrective actions taken by the IRS included hiring an outside firm to conduct an analysis of local telecommunications costs. As of May 19, 2004, the analysis had resulted in actual refunds to the IRS of approximately \$2.2 million, while an additional \$48,000 in projected refunds were still pending. In addition, the IRS will avoid \$635,000 in telecommunications costs annually (\$3.2 million over 5 years) as a result of the vendor's analysis. The IRS also conducted a review of Treasury Communications System invoices, which recovered over \$825,000 in credits due to the Federal Government and identified \$850,000 in unrecoverable circuit overpayments that resulted from the IRS not having disconnected services when offices were relocated.

While the IRS has completed several corrective actions, the TAT system has not been effectively implemented and inventory control weaknesses for cellular telephones and phone cards have not been adequately addressed. For example, as of May 21, 2004, the TAT system's Waste, Fraud, and Abuse (WFA) reports system had significant problems and the automated quarterly reports, reflecting questionable long distance telephone call and phone card use, had not been effectively distributed for managerial review.

In addition, critical information is not captured by the WFA reports system for management to assess the program's effectiveness. For example, the system does not permit management to assess a call as "Unauthorized." The system also does not generate reports presenting the timeliness of management's review of the quarterly call detail reports. Therefore, the IRS cannot determine the effectiveness of the quarterly review criteria in identifying suspicious calling patterns and the timeliness of management's reviews.

The TAT system electronic billing (e-billing) module also had implementation problems. For example, it does not reconcile the invoice against an inventory of circuits for asset verification, and several IRS offices we contacted reported problems with the electronic invoice process. While the TAT system e-billing module does compare invoices against the historical norm to identify suspect charges, the variance threshold is currently at the system default setting of 10 percent for all offices (i.e., invoices are not flagged for review until the invoice amount is above the historical norm by at least 10 percent). As a result, erroneous local telephone service charges may not be detected.

Finally, the IRS has not established an accurate inventory of its cellular telephones, and a complete inventory of phone cards has not been conducted since 2002. In addition, policies and procedures have not been developed for completing the annual inventory validation and reporting the results.

We recommended the Chief Information Officer (CIO) ensure the IRS continues to monitor controls over its telecommunications costs as a reportable condition, quarterly reports to monitor employee telephone use are distributed, and the TAT system permits an assessment of calls as "Unauthorized" and requires "Follow up" calls to be resolved as "Valid" or "Unauthorized." We also recommended that the CIO ensure a reporting

feature is added to identify the results of managerial reviews, and work continues to resolve the technical problems. In addition, we recommended the CIO ensure the variance threshold percentage is evaluated, offices are directed to use the TAT system e-billing module, and a post-implementation review is conducted. Finally, we recommended the CIO ensure that service is immediately discontinued for unregistered cellular telephones, policies and procedures are developed for the annual inventory validation of cellular telephones and phone cards, and a complete and accurate inventory is established.

Management's Response: IRS management agreed with the recommendations presented in this report. The IRS will continue to monitor controls over its telecommunications costs and maintain it as a reportable condition until deficiencies are resolved. IRS management corrected two problems causing the WFA report deficiencies and will implement automated distribution of the quarterly detail reports. The remaining two deficiencies will also be corrected. The status indicators will be changed and the information will be provided to local management for further actions, if necessary. Also, a reporting feature is being added to the system and the quarterly reports will be provided to management.

In addition, a memorandum was issued advising field locations they will be required to deliver the true 10-digit originating telephone number. The TAT team is working with the Human Resources Connect Project Office to ensure the data are current. The TAT team will also evaluate the use of the 10 percent variance for all field offices and adjust the percentage accordingly. A memorandum is being issued directing the mandatory use of the TAT e-billing system process for bill payment and bill verification. A post-implementation review will be conducted within 60 days of accepting the TAT system application.

IRS management also responded that the service for unregistered cellular telephones will be terminated as of December 31, 2004; policies and procedures regarding the Cellular Telephone program are part of the Wireless Electronic Ordering System web page and Internal Revenue Manual; cellular telephones will be validated annually; and web site improvements will enable a more effective validation process.

In addition, in May 2004, draft phone card policies and procedures were developed and are being reviewed; inventory reports will be shared with Business Operating Division management; the Calling Card Ordering System contains an accurate phone card inventory; and in April 2004, the Enterprise Networks organization began an annual audit/revalidation process for phone cards. Finally, a determination will be made as to whether the inclusion of a cellular telephone and/or phone card inventory module in the TAT system is a cost-effective solution for the Federal Government. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

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Background

One of the Internal Revenue Service's (IRS) major strategies contained in the *IRS Strategic Plan Fiscal Years (FY) 2000 – 2005* is to promote effective stewardship of assets and information by improving internal processes for information and asset management. In support of this strategy, the mission of the Enterprise Networks organization is to provide all forms of electronic communications (i.e., voice, data, video, and wireless) in the most efficient and effective manner. For FY 2004, the Enterprise Networks organization's nonlabor budget was \$297 million, which included \$115 million for Wide Area Data Services, \$80 million for Local Voice and Data Services, \$11 million for Federal Technology Services (FTS)¹ Network Services, and \$4.5 million for Wireless Cellular Telephone Services.

Since 1993, the Treasury Inspector General for Tax Administration (TIGTA), formerly the Inspection function of the IRS, has performed several audits of the IRS' telecommunications program and found that the IRS did not have effective controls over its telecommunications costs for long distance, local telephone service, cellular telephones, phone cards, and data networks. As a result, in 1994 the IRS began tracking the internal controls over its telecommunications costs as a material weakness² in accordance with the Federal Managers' Financial Integrity Act of 1982.³ IRS management has since implemented several corrective actions to improve controls in the telecommunications program.

In July 2000, the IRS began developing the Telecommunications Asset Tool (TAT) system as its telecommunications monitoring and tracking system to address many of the reported weaknesses in the controls over its telecommunications costs. As of April 2004, TAT system expenditures totaled \$5.1 million. The TAT system is a web-based telecommunications resource management

¹ The General Services Administration FTS Network Services provides a comprehensive program of voice, data, and video services to Federal Government agencies.

² A material weakness is a control deficiency the agency head determines to be significant enough to be reported outside the agency.

³ 31 U.S.C. §§ 1105, 1113, 3512 (2000).

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system designed to allow local and national offices to initiate, process, approve, review, and manage FTS resources to identify potential waste, fraud, and abuse.

The identification of potential waste, fraud, and abuse is accomplished by reviewing long distance telephone call and phone card use with established criteria agreed to by the National Treasury Employees Union (NTEU) on September 25, 2001. However, prior to this agreement, long distance telephone call and phone card use had not been reviewed since December 1998 because the NTEU had not agreed to the revised Billing Analysis Reporting Tool (BART)⁴ criteria.

In addition to reviewing long distance telephone call and phone card use, the TAT system provides additional functionality in the following five modules:

- Service Request Orders – Provides an online telecommunications ordering function used to submit new FTS orders to Sprint and monitor the acceptance status of orders.
- Telecom Assets – Allows authorized users to view the asset inventory by type of service or by IRS site.
- Local Exchange Carriers (LEC) Electronic Billing (e-billing) – Allows authorized users to register, review, authorize, and certify telecommunications invoices from six LECs online.
- Finance – Allows users to view FTS billing data in various report formats. The finance module has also been enhanced to support other financial functionalities. For example, the Waste, Fraud, and Abuse (WFA) reports system was added to provide managers the ability to review employee use of telephones and phone cards for long distance calls.
- Administration – Allows users and administrators to perform administrative functions such as authorizing users, editing user information, configuring service

⁴ The BART system was one of several systems previously developed by the IRS to assist in reviewing long distance telephone charges to identify inefficient and unauthorized use.

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types and features, editing or adding location information, and running various reports.

On October 16, 2003, the IRS notified the Department of the Treasury of its intent to downgrade the internal controls over its telecommunications costs from a material weakness to a reportable condition.⁵ The IRS' decision was based on the completion of several corrective actions it had taken to address the control weaknesses, which included implementing the TAT system and issuing policies and procedures on the proper use of phone cards and cellular telephones. The Department of the Treasury concurred with the IRS' request on November 20, 2003.

This review was performed in the Enterprise Networks office at the IRS National Headquarters in New Carrollton, Maryland, and the Tennessee Computing Center⁶ in Memphis, Tennessee, during the period January through June 2004. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

While Several Completed Corrective Actions Improve the Management of Telecommunications Costs, Control Deficiencies Still Exist

The Department of the Treasury Directive (TD) 40-04, *Treasury Internal (Management) Control Program*, and the Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, provide guidance on the internal (management) controls required to reasonably ensure programs and resources are protected from waste, fraud, and mismanagement. The IRS Management Controls Accountability Program (MCAP) defines management controls as the programs, policies, and procedures for ensuring mission and program objectives are accomplished and resources are adequately safeguarded. The MCAP also assigns IRS managers stewardship and accountability for IRS operations and prompt correction of management control deficiencies.

⁵ A reportable condition is a problematic issue that warrants special management attention to ensure improvement, rather than deterioration to the point at which it becomes a material weakness.

⁶ IRS Computing Centers support tax processing and information management through a data processing and telecommunications infrastructure.

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Corrective actions completed by the IRS to improve the management of telecommunications costs include:

- Implementing a nationwide system to detect and identify potential wasteful, fraudulent, and abusive charges and to monitor employee long distance telephone call and phone card use.
- Establishing a process to receive local telephone carrier bills electronically to streamline local billing review and certification for payment.
- Creating an automated process to compile a cellular telephone inventory database and to order equipment, track devices, and monitor equipment use.
- Developing a system that provides online ordering and inventory capability for phone cards and implementing several procedures to safeguard and manage the phone card inventory.

In addition, in response to a September 2002 TIGTA report on control weaknesses over the IRS' local telecommunications costs,⁷ the IRS hired an outside firm to conduct an analysis of local telecommunications costs to identify areas where potential savings could be realized. As of May 19, 2004, the analysis had resulted in actual refunds to the IRS by the LECs of approximately \$2.2 million, while an additional \$48,000 in projected refunds were pending final negotiations with the vendors. The IRS will also avoid \$635,000 in telecommunications costs annually as a result of the vendor's analysis.

We also previously recommended the IRS perform an in-depth analysis of Treasury Communications System (TCS) invoices to identify billings for circuits and equipment that no longer exist at IRS offices.⁸ In January 2003, the IRS completed its review of TCS billing invoices, which recovered over \$825,000 in credits due to

⁷ *Controls Over the Telecommunications Programs Continue to Need Improvement* (Reference Number 2002-20-198, dated September 2002).

⁸ *Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract* (Reference Number 2000-10-028, dated February 2000).

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the Federal Government and identified \$850,000 in unrecoverable circuit overpayments that resulted from the IRS not having disconnected services when offices were relocated (see Appendix IV for the savings calculations).

With the completion of these corrective actions, the Enterprise Networks organization has requested closing as a reportable condition the controls over telecommunications costs. However, the implementation of the TAT system and other completed corrective actions have not effectively addressed the control deficiencies surrounding the management of telecommunications costs. For example:

- An effective managerial review process for long distance telephone calls and phone card use has not been implemented.
- Several obstacles preclude the successful implementation of an electronic invoice process for local telephone services.
- Control weaknesses in managing the cellular telephone inventory still exist.
- Annual inventories of phone cards have not occurred on a consistent basis.

Consequently, management cannot effectively detect and deter abusive calling patterns, detect erroneous local telephone service charges, and realize expected gains in efficiency from electronic invoice processing. The IRS also continues to be at risk to the possible misappropriation of cellular telephones and the payment of erroneous or unauthorized cellular telephone and phone card charges.

Recommendation

1. The Chief Information Officer (CIO) should ensure the IRS continues to monitor the controls over its telecommunications costs as a reportable condition until the remaining control deficiencies are resolved.

Management's Response: The IRS will continue to monitor controls over its telecommunications costs and maintain it as a reportable condition until deficiencies are resolved.

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An Effective Managerial Review Process for Long Distance Telephone Calls and Phone Card Use Has Not Been Implemented

OMB Circular A-123 requires management controls to reasonably ensure programs and resources are protected from waste, fraud, and mismanagement. To ensure the appropriate use of office equipment, the Department of the Treasury issued TD 87-04, *Personal Use of Government Office Equipment Including Information Technology*, which authorized limited personal use of Federal Government office equipment by employees under certain conditions. The IRS allows employees to make limited use of Federal Government telephones for necessary personal calls that do not adversely affect the performance of office duties, are of reasonable duration and frequency, and could not reasonably have been made during nonwork hours. For employees in travel status, the IRS permits limited use of Federal Government telephones or phone cards for necessary personal telephone calls.

On February 21, 2003, the IRS CIO issued memoranda to all employees and managers notifying them that the IRS would use the TAT system to perform quarterly reviews of employee long distance telephone call use and phone card records that meet certain criteria. In June 2003, the IRS reported the TAT system finance module was fully functional and effectively generates reports to monitor employee telephone use.

With the implementation of the TAT system, the IRS notified the Department of the Treasury on October 16, 2003, that it had implemented a system to detect and identify potential wasteful, fraudulent, and abusive charges and monitor employee telephone use. However, as of May 21, 2004, an effective managerial review process of FTS long distance telephone call and phone card use had not been implemented. For example:

- Questionable calls are not being regularly identified for managerial review.
- Significant implementation problems reduce the TAT system's effectiveness.
- Critical information is not captured by the TAT system for management to assess the program's effectiveness.

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As a result, management cannot effectively detect and deter abusive calling patterns and collect reimbursement for unauthorized FTS long distance telephone call and phone card charges from employees.

Questionable calls are not being regularly identified for managerial review

Standardized reports were developed for managerial review based on established criteria used to recognize patterns of potentially inappropriate or wasteful calls. The TAT system's WFA reports processing was to be conducted on a quarterly basis and would concentrate on the potential waste, fraud, and abuse of telecommunications resources and lost productivity resulting from excessive staff time spent on personal telephone calls rather than on official duties. Managers were to use the automated reports to conduct follow-up analyses, educate users, facilitate corrective actions, and track implementation of best practices.

Although the IRS reported to the Department of the Treasury that the TAT system finance module (including the WFA reports system) was fully functional in June 2003, the reports were not automatically generated and provided to managers. Report generation was delayed because the IRS had not completed the computer matching program⁹ notification requirements pursuant to the Privacy Act of 1974¹⁰ to provide for a 40-day window of review by the OMB and members of the Congress prior to implementation. The review window expired the beginning of March 2004.

The TAT Project Team began the initial run of the automated WFA reports system reports process on April 22, 2004, after complying with the computer matching program notification requirements and ensuring all communication and training activities to promote awareness and understanding of the system were completed. The WFA reports system is designed to provide first-level

⁹ A computer-matching program is the computerized comparison of two or more automated systems of records.

¹⁰ 5 U.S.C. § 552a (2000).

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managers an email containing a link to the WFA reports system reports for their offices.

Although the emails were issued on April 22, 2004, containing a link for managers to access the quarterly call detail reports, the implementation date was not met because managers were unable to access their reports due to network and database problems. While the TAT Project Team reported that both problems were corrected by April 26, 2004, additional problems were identified. As of May 21, 2004, the problems had not been resolved and the system had not been implemented. The delay in automatically distributing the WFA reports system reports resulted in the IRS being unnecessarily exposed, since June 2003, to incurring charges for unauthorized telephone use without the possibility of detection and the initiation of disciplinary and collection action against employees.

In addition, information was provided to all managers that the ad hoc process was available to request reports detailing calls from office telephones or phone cards if they suspected potential problems. The ad hoc reporting process began in January 2003, but its use has been limited. For example, the TAT Project Team received only 20 requests for ad hoc reports during the period October 2003 through March 2004.

Significant implementation problems reduce the TAT system's effectiveness

While implementing the WFA reports system, the TAT Project Team has identified problems associating the telephone number in the call detail record to the telephone number assigned to an IRS employee, which significantly reduces the number of exception records that are available for managerial review. For example, only 986 (38 percent) of the 2,624 records that contained FTS long distance telephone and phone card calls meeting the questionable criteria during the first run of the WFA reports system on April 22, 2004, actually resulted in the generation of an email to a manager. The TAT Project Team attributed part of the problem to an issue with the Automatic Number

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Identifier (ANI)¹¹ capability at some IRS facilities, which is needed to identify the telephone number that initiated the questionable call. Not having the ANI capability results in mismatches, since the call detail record does not contain the correct telephone number from which the call originated.

In addition, the TAT Project Team suspects the telephone numbers for some IRS employees and managers contained in the Corporate Authoritative Directory Service (CADS)¹² system may not be complete or accurate. Since the TAT system's WFA reports system uses the CADS system to identify the employee who made the questionable telephone call by matching the originating telephone number in the call detail report to the telephone number contained in the CADS system, erroneous telephone numbers affect the IRS' ability to correctly associate the questionable call with the responsible IRS employee. For example, an analysis of the 113,158 employee accounts contained in the CADS system showed that only 94,801 (84 percent) had a telephone number for the employee in their account information. Not having the ANI capability at some IRS facilities, combined with incomplete and inaccurate information in the CADS system, significantly hampers the ability of the WFA reports system to correctly identify the employee responsible for making a questionable call.

Critical information is not captured by the TAT system for management to assess the program's effectiveness

The Department of the Treasury *Information Technology Manual* requires each bureau to establish a performance measurement approach to measure an information technology investment in terms of improved efficiency, effectiveness, and increased quality. For the WFA reports system, managers are required to review their quarterly call detail reports within 5 business days of the initial TAT system email and certify within 15 business days that their

¹¹ The ANI is a service feature in which the directory number or equipment number of the calling station that originated a call is automatically provided for billing purposes.

¹² The CADS system is an IRS Intranet web-based tool used to locate people by name, organization, or location. The CADS system includes the telephone number, email address, and manager for each IRS employee.

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employee(s) made the call(s) for valid business reasons. For an unauthorized call, the manager is instructed to obtain reimbursement of the cost of the call plus fees and taxes. In addition, managers were advised that disciplinary or adverse action might be appropriate.

The WFA reports system permits management to assess a call as “Valid” or “Follow up” but does not permit management to assess a call as “Unauthorized.” In addition, the WFA reports system does not include the ability to generate a report that would identify the timeliness of management’s review of the quarterly call detail reports. For the ad hoc reports requested by managers, the TAT Project Team tracks the date of the request and who requested the ad hoc report because the WFA reports system module does not track the requests.

As a result, the TAT Project Team cannot determine whether the quarterly review criteria are effective in identifying suspicious calling patterns and whether managers timely reviewed the questionable calls. The TAT Project Team explained that the WFA reports system is considered to be a data-gathering system only intended to provide managers with information on telephone use by their staffs.

Recommendations

The CIO should ensure:

2. Quarterly call detail reports are manually distributed until the problems associated with implementing the WFA reports system have been sufficiently addressed.

Management’s Response: Two of the four problems that caused the deficiencies in the initial reports were corrected in April 2004. With the corrections, the Enterprise Networks organization is implementing automated distribution of the quarterly call detail reports. The two remaining problems will be corrected with the implementation of a change in the way employees access the IRS computer network and a modification to the system that will allow a manager to designate a proxy manager.

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3. The WFA reports system is modified to permit an assessment of calls as “Unauthorized” and require “Follow up” calls to be resolved as “Valid” or “Unauthorized.”

Management’s Response: The Enterprise Networks organization submitted a change request to the contractor to change the STATUS indicators from “Valid” and “Follow-up” to “Accept” and “Reject.” Further selections under “Reject” will include: “Closed – Employee did not make call;” “Closed – See manager,” followed by free-form comments; and “Closed – Resolved” – followed by free-form comments to be entered by the manager. The information will be used by local management for further actions, if necessary.

4. A reporting feature is added to the WFA reports system to identify the results of the managerial reviews (including the timeliness of management’s review), the assessment on the validity of the call, and trends of repeated unaccounted for use of Federal Government telephones and phone cards. Management should also follow up on the trends of questionable calls.

Management’s Response: A reporting feature is being added to the system that will allow a report to be run that identifies the nature and timeliness of the managers’ decisions. These reports will be provided quarterly to Business Operating Division (BOD) management to determine if decisions were appropriate and to the Chief Human Capital Officer to determine if there are any labor/employee relations issues to resolve.

5. The TAT Project Team reviews the call detail records to identify potential ANI issues and takes the necessary actions to resolve these issues.

Management’s Response: The Director, End User Equipment and Services, and Director, Enterprise Networks, issued a memorandum, dated June 21, 2004, advising field locations that effective January 3, 2005, each official IRS site will be required to deliver the true 10-digit originating telephone number of each calling party to the FTS long-distance carrier. This ANI policy will allow the originating telephone number to be passed through the FTS

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network for reporting purposes. Additionally, sites were advised to notify the Enterprise Networks organization of any impediments to achieving that objective.

6. The TAT Project Team continues to work with the CADS Program Office to ensure the information in the CADS system is complete and accurate.

Management's Response: The TAT database links with the CADS to match the telephone number with the employee assigned and, consequently, the manager of that employee. The CADS obtains its employee and manager data from the Human Resources Connection (HR Connect). Discrepancies in both the HR Connect and the CADS have led to invalid data in the reports. The TAT database is being revised to permit an administrator to run filters to collect and identify invalid data provided by the HR Connect. The TAT team is working with the HR Connect Project Office to ensure the HR Connect is kept up-to-date.

Several Obstacles Preclude the Successful Implementation of an Electronic Invoice Process for Local Telephone Services

The Department of the Treasury *Information System Life Cycle Manual* establishes the rules and principles governing the life cycle management of information systems to ensure developed systems are responsive to mission requirements. After a system has been operational for a period of time, management should evaluate the success of the system by determining whether expected benefits have been achieved and user needs have been met.

The TAT system e-billing module allows authorized users online capability to register, review, authorize, and certify telecommunications invoices from LECs. This module is expected to streamline the review, certification, and processing of electronic invoicing to allow timely payment of bills. In October 2003, the IRS reported to the Department of the Treasury that the TAT system e-billing module to address the control weakness over local telecommunications costs was operational. However, several obstacles preclude the successful implementation of an electronic invoice process for local telephone services. For example:

- The TAT system e-billing module does not reconcile the invoice against an inventory of circuits for asset verification.

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- Some IRS locations are not using the TAT system e-billing module to review invoices.
- Several offices reported systemic problems with the electronic invoice process.

As a result, erroneous local telephone service charges may not be detected and expected gains in efficiency from electronic invoice processing may not be realized. In addition, the TAT Project Manager advised that a post-implementation review had not been conducted because the TAT system was not yet fully implemented and they are waiting for it to be security certified.

The TAT system e-billing module does not reconcile the invoice against an inventory of circuits for asset verification

On December 16, 2003, an outside firm completed an analysis of the IRS' local telecommunications costs to identify areas where potential savings could be realized. This analysis was also used by the IRS to establish a baseline inventory of local telephone service circuitry, which could then be used by the TAT system e-billing module to reconcile invoices against the asset database for billing certification purposes. If discrepancies should be identified, the TAT system e-billing module would issue notifications to the affected users. However, the TAT Project Team explained that the asset reconciliation capability is on hold because the process causes a delay in system performance that affects user processing. To address the system performance issue, the TAT Project Team developed a system requirements document and submitted a system change request.

Although the reconciliation of invoices against the asset database has not occurred, the TAT system e-billing module does compare invoices against a user-defined variance threshold to determine whether the current charges are above or below the historical norm, which is intended to identify suspect charges for additional scrutiny by the reviewer. For example, if the amount of the current month's bill exceeds the historical average by 10 percent (current system default variance for all offices) or more, the TAT system e-billing module notifies the user by highlighting the

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bill amount and displaying a note detailing the exception. While the variance threshold may increase the possibility of identifying suspect charges, it also increases the risk that inappropriate charges will not be identified in subsequent months because inappropriate charges within the variance amount are added to the baseline for future historical comparisons.

Some IRS locations are not using the TAT system e-billing module to review invoices

On June 25, 2003, the Director, End User Equipment and Services (EUES), issued a memorandum to all Area¹³ Directors, Computing Center Directors, and Territory Managers announcing that the TAT system e-billing module for local telephone services was operational. The memorandum encouraged management to identify those individuals responsible for receiving, reviewing, and certifying local telephone bills and have those individuals register for the TAT system e-billing module.

However, not all IRS locations are using the TAT system e-billing module. For example, three of the eight offices we contacted were not using the electronic invoice process available on the TAT system e-billing module.

The reasons provided by the three sites for not using the TAT system e-billing module varied. Officials at one site indicated their budget information was not accurately input into the module, while those at another site explained that the person responsible for reviewing its invoices was incorrectly assigned to a different site in the TAT system. Local management at the third site explained that they did not use the TAT system e-billing module because their site had entered into a 5-year contract with the local telephone carrier that they preferred to administer outside of the electronic invoice process available on the TAT system. The TAT Project Team explained that no directive has been issued requiring all IRS offices to use the TAT system e-billing module.

¹³ EUES resources are allocated over three geographically organized Area Offices (i.e., Northeast, Southeast, and Western). Each Area has 7 Territories (21 total Territories) that serve segments of the Area.

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Several offices reported problems and concerns with the electronic invoice process

We surveyed 42 offices that were registered to use the TAT system e-billing module. Of these 42 offices, 9 reported problems and/or complaints with the electronic invoice process. Systemic problems reported by the offices included:

- Delay of up to 2 weeks before the invoices are available for review and certification (2 offices).
- Email notification not received when bills are available for review (1 office).
- Unable to amend the funding allocations, and details for some charges are not reflected (1 office).

Several offices also complained that the TAT system e-billing module has not automated the process for paying the invoices, since they still have to print the invoice summary page and fax it to the Beckley Finance Center for payment. In addition, several offices suggested they be permitted to approve a payment amount that is different from the invoice amount when they identify charges they are disputing.

As a result of the problems with the TAT system e-billing module, IRS management cannot determine the module's effectiveness in achieving original program objectives and maximize efficiency gains from online electronic invoice processing.

Management's Actions: The TAT Project Team has taken several actions to address the system problems, including working with the Enterprise Service Desk (ESD) Program Office to incorporate the TAT system modules as an ESD Help Desk project, working with the Mission Assurance organization to obtain final security certification of the system so vendor invoices can be electronically received, and submitting several system change requests. The system changes are to be implemented by September 2004.

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

Recommendations

The CIO should ensure:

7. The variance percentage is evaluated to ensure the setting is appropriate for each site.

Management's Response: A memorandum will be issued by September 3, 2004, requiring the mandatory use of the TAT system e-billing process effective October 1, 2004. Subsequently, the use of the 10 percent variance for all field offices will be evaluated and adjusted accordingly.

8. Offices are directed to use the TAT system e-billing module and any obstacles to nationwide use are identified for timely resolution.

Management's Response: A memorandum is being issued directing the mandatory use of the TAT system e-billing process for bill payment and bill verification effective October 1, 2004. Any office that cannot use the TAT system e-billing process must submit an exception request with full justification no later than September 15, 2004.

9. A post-implementation review is conducted to assess the effectiveness of the system in meeting the original objectives.

Management's Response: The Enterprise Networks organization will conduct a post-implementation review within 60 days of accepting the TAT system application. Additionally, a follow-up review will be conducted 6 months after the system has been fully implemented.

Control Weaknesses in Managing the Cellular Telephone Inventory Still Exist

OMB Circular A-123 requires managers to maintain appropriate, cost-effective controls over the agency's financial resources and assets to improve the accountability and effectiveness of Federal Government programs and operations. Specifically, it requires agency managers to establish management controls that provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. It also holds agency managers responsible for taking timely and effective action to correct deficiencies. For example, it stipulates that management has a responsibility to identify and implement corrective actions regarding agreed to Inspector General

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audit recommendations within 1 year, to the extent practicable.

The national cellular telephone inventory is currently not managed using the TAT system; however, the IRS plans to move the cellular telephone inventory and billing function to the TAT system in FY 2005. Since 1993, we have performed several audits and reported control weaknesses in managing the IRS' cellular telephone inventory.¹⁴ IRS management agreed to establish an accurate cellular telephone inventory, conduct annual inventory validations, and implement an automated process that will compile a national cellular telephone database and be used to order equipment, automatically update the inventory, and support the annual inventory validations.

Although the IRS established an automated process to improve the management of its cellular telephone inventory, control weaknesses continue to exist. For example, an accurate inventory of cellular telephones has not been established, and policies and procedures have not been developed for completing the annual validation of the cellular telephone inventory and reporting the results.

An accurate inventory of cellular telephones has not been established

To establish a current inventory, the IRS mandated that all new requests for cellular telephones be made using the electronic ordering system for wireless devices, effective August 1, 2002. In addition, all IRS employees that were assigned a cellular telephone prior to implementation of the automated process were required to register their telephones on the Wireless Services Web Page by September 1, 2002. Current cellular telephone holders were warned that, if they did not timely register their cellular telephones, their service would be discontinued until registration occurred.

¹⁴ *Review of the Service's Controls Over Voice Telecommunications Charges* (Reference Number 034908, dated September 1, 1993); *Monitoring of Long Distance and Cellular Telephone Costs Continues To Need Improvement* (Reference Number 2001-20-171, dated September 2001); and *Controls Over the Telecommunications Programs Continue to Need Improvement* (Reference Number 2002-20-198, dated September 2002).

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

The initial cellular telephone inventory was completed in September 2002; however, it is not accurate because it does not include employees that had cellular telephones prior to implementation of the automated process but failed to register their cellular telephones in the database by September 1, 2002, as required. The Wireless Program Office acknowledges that it has not yet established an accurate inventory of cellular telephones. In addition, management advised that the IRS is currently being billed monthly for approximately 9,100 cellular telephone numbers, but management could not provide the cellular telephone inventory records.

Management also could not provide the monthly costs for cellular telephone services. We requested the information on two occasions during the audit and were advised the information could not be provided. However, after we completed our audit work, management stated that the monthly costs for cellular telephone services could be provided from the vendor bills. Since our audit work was completed, we did not obtain and review the cost information.

Although service was to be discontinued for unregistered cellular telephones, the Wireless Program Office explained that the IRS has been reluctant to cancel service for those employees who failed to register their cellular telephones. This is due, in part, to the fact that some of the unregistered cellular telephones were assigned to IRS executives. Wireless Program Office management believes it is inappropriate to discontinue cellular telephone service for IRS executives who have not registered their cellular telephones. Consequently, the IRS continues to be at risk of the possible misappropriation of cellular telephones and the payment of erroneous or unauthorized cellular telephone charges for individuals who may no longer work for the IRS or who have changed positions and no longer have a need for a cellular telephone.

Policies and procedures have not been developed for completing the annual validation of the cellular telephone inventory and reporting the results

To maintain an accurate inventory of cellular telephones, the IRS agreed to conduct annual inventory validations. As part

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

of this process, the IRS issued guidance requiring each employee with an issued cellular telephone to log on to the Wireless Services Web Page (upon receipt of an email notification) and verify his or her account information (e.g., name, address, cellular phone make and model). However, the Wireless Program Office has not developed guidelines for its staff specifying how to perform the annual cellular telephone inventory validation.

In addition, no document was prepared to report the results of the initial inventory validation (i.e., exceptions identified and corrective actions planned). As a result, discrepancies that existed between registered cellular telephones in the database and cellular telephones for which the IRS is being charged for services were not reported, and corrective actions have not been identified. Management attributes the delay in developing appropriate policies and procedures to limited project staffing and other priorities. However, requirements are currently being developed for various administrator guides and management reports.

The Wireless Program Office is aware of the problems in effectively managing the cellular telephone inventory and has initiated some corrective actions. For example, management submitted a Request for Information Services (RIS)¹⁵ to require changes to the electronic ordering system and to establish various management reports. Management will also be developing user and administrator guides. In addition, management will assign responsibility for updating the cellular telephone inventory database to the local telecommunications staff rather than the assigned cellular telephone holders.

While local telecommunications employees will validate the cellular telephone inventories, the reports to be used for the validation are inaccurate. Our review of an inventory report issued in March 2004 for 1 area code included 48 cellular telephone numbers and the associated devices. Of these 48 cellular numbers, 22 (46 percent) were duplicate

¹⁵ A RIS is a formal request for support from any organization to the Modernization and Information Technology Services (MITS) organization. Requests can be for changes to current or planned programs, corporate hardware, Commercial Off-the-Shelf software products, system testing, and other MITS services.

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listings (some as many as 5 times). The continued existence of control weaknesses in managing the cellular telephone inventory exposes the IRS to the possible misappropriation of assets and the payment of erroneous or unauthorized charges.

Recommendations

The CIO should ensure:

10. Service is immediately discontinued for cellular telephones that have not been registered in the national database.

Management's Response: A memorandum from the CIO was signed on August 5, 2004, and distributed to all BODs instructing all employees who have IRS-issued cellular telephones to register these cellular telephones by September 30, 2004. Failure to register a telephone will result in suspension of service to that telephone until it is registered. By October 31, 2004, the Wireless Staff will suspend service on any remaining non-validated (i.e., unregistered) telephones.

Employees will have an opportunity to protest and register their telephones prior to the end of the calendar year. However, telephones remaining on suspended service on December 31, 2004, will have service terminated and the telephone number will be dropped from the inventory.

11. Policies and procedures are developed for completing the annual inventory validation and reporting the inventory results.

Management's Response: Policies and procedures regarding the Cellular Telephone program are part of the Wireless Electronic Ordering System web page. They are also documented in the Internal Revenue Manual (IRM). The annual validation process already described in the cellular telephone policy statement will be followed annually. Additionally, improvements are being made to the web site which will enable a more effective validation process.

12. A complete and accurate inventory of cellular telephones is established as an interim measure until the

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

inventory management and billing function can be added to the TAT system.

Management's Response: The requirement for a complete and accurate inventory will be fully met once the corrective actions described for Recommendations 10 and 11 are implemented. Once the TAT system program is fully accepted and the post-implementation review is conducted, a determination will be made as to whether the inclusion of a cellular telephone inventory module in the TAT system is a cost-effective solution for the Federal Government.

Annual Inventories of Phone Cards Have Not Occurred on a Consistent Basis

The Government Accountability Office¹⁶ *Standards for Internal Control in the Federal Government* require that periodic comparisons of resources with accountability records be completed to reduce the risk of errors, fraud, or unauthorized use. In 1993, we reported that the IRS needed to improve controls over issued Federal Government phone cards.¹⁷ In response, IRS management agreed to conduct an annual inventory of its phone cards and issue inventory guidelines and procedures. In September 2001, we reported that the IRS had conducted only one inventory of the phone cards since 1993.¹⁸

The IRS has approximately 39,000 phone cards issued to its employees, approximately 16,000 of which are currently being converted from Sprint to AT&T phone cards. IRS management has implemented several procedures to safeguard and manage the phone card inventory to minimize the risk of waste, fraud, and abuse. For example, the staff responsible for maintaining the phone card inventory updates the inventory database regularly based on information received from managers and employees notifying them if an employee has been reassigned, separated from the IRS, or no longer has a business need for the phone card. In addition, a monthly reconciliation between the phone card database and the Totally Automated

¹⁶ Formerly the General Accounting Office.

¹⁷ *Review of the Service's Controls Over Voice Telecommunications Charges* (Reference Number 034908, dated September 1, 1993).

¹⁸ *Monitoring of Long Distance and Cellular Telephone Costs Continues To Need Improvement* (Reference Number 2001-20-171, dated September 2001).

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Personnel System (TAPS)¹⁹ is performed to ensure phone cards were cancelled for employees that have left the IRS. The IRS also developed a separate web site and the Calling Card Ordering System (CCOS)²⁰ to manage the phone card inventory. The IRS plans to migrate the inventory management and billing processes for phone cards to the TAT system in FY 2005.

Although the IRS has taken several measures to improve the management of issued phone cards, a complete inventory of the phone cards has not been conducted since 2002. Management explained that only partial inventories were completed in 2003 because the IRS began converting phone cards from Sprint to AT&T. With this process nearing completion, management stated that a full audit of the phone card inventory would be conducted during this calendar year prior to converting the remaining cards to AT&T.

In addition, management has not documented the guidelines and procedures for completing the annual inventory or reporting the inventory results (i.e., exceptions identified and corrective actions planned). Management attributes this to limited staffing and other priorities. Not having consistent recurring inventories and documented inventory procedures increases the risk that unauthorized use of IRS-issued phone cards will not be detected.

Recommendations

The CIO should ensure:

13. Policies and procedures are developed for completing the annual inventory validation and reporting the inventory results.

Management's Response: The IRM currently describes phone card policies and procedures. Draft policies and procedures were developed in May 2004 and are being reviewed. The Enterprise Networks organization will share

¹⁹ The TAPS is a multi-module system that maintains employee information, processes personnel actions, and allows the input and validation of time and attendance records.

²⁰ The CCOS is an online ordering and inventory system to provide accountability of a centralized phone card database.

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inventory reports with BOD management by September 30, 2004. These procedures will be placed in a Detroit Computing Center Phone Card Staff Desk Guide by November 2004.

14. A complete inventory of phone cards is established prior to migrating the inventory management and billing function to the TAT system and annual phone card inventories are completed on a consistent basis.

Management's Response: The CCOS contains an accurate inventory of the 37,000 Sprint/AT&T phone cards. In April 2004, the Enterprise Networks organization began an annual audit/revalidation process for Sprint phone cards by the BODs, which is being conducted simultaneously with the transition of the phone cards to AT&T. The transition to AT&T is expected to be completed in November 2004.

Once the TAT system program is fully accepted and the post-implementation review is conducted, a determination will be made as to whether the inclusion of a phone card inventory module in the TAT system is a cost-effective solution for the Federal Government.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the effectiveness of the controls over telecommunications costs. To accomplish this objective, we:

- I. Reviewed national policies, procedures, and training materials for reviewing long distance telephone call and phone card use reports and for initiating disciplinary and collection actions for unauthorized calls using the Telecommunications Asset Tool (TAT) system finance module. We interviewed management about the implementation status and current functionality of the TAT system finance module, reviewed system documentation, and identified the number of ad hoc reports requested by managers in the first 2 quarters of Fiscal Year 2004. We also assessed management's actions to resolve problems encountered while implementing the enhanced reporting tool to identify waste, fraud, and abuse.
- II. Reviewed national policies, procedures, and training material for reviewing and certifying local billing invoices using the TAT system electronic billing (e-billing) module. We also reviewed system documentation and interviewed management on the implementation status and current functionality of the e-billing module. For the 48 offices registered to use the TAT system e-billing module, we surveyed all 42 offices having an email address for the person to contact to identify system problems. We also judgmentally selected eight offices to evaluate the invoice review and reconciliation process. We interviewed personnel responsible for reconciling the local billing invoices and obtained a walk-through of the process. The selected offices were geographically dispersed across the country. We judgmentally selected the eight offices because there was no need to project the results to the population.
- III. Reviewed policies and procedures for managing and monitoring the cellular telephone and phone card inventories. We also interviewed management to determine the roles, responsibilities, and procedures for updating and reconciling the inventories and conducting annual inventory validations. In addition, we reviewed the documentation for completed inventory reconciliations and the resolution of identified discrepancies.
- IV. Reviewed the status and results of the corrective actions taken by management to address the internal controls material weakness over telecommunications costs, including the support to downgrade the material weakness to a reportable condition. We also interviewed management on the results of the implemented savings initiatives and the Treasury Communications System review completed January 2003.

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- V. Interviewed management on the expected benefits and performance measures for the TAT system. We also obtained documentation identifying the TAT system performance measures and reviewed performance statistics for the TAT system to determine whether the expected benefits were being derived. In addition, we reviewed any evaluations of the TAT system completed by management to assess system performance.

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Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs)
Gary Hinkle, Director
Danny Verneuille, Audit Manager
Olivia Jasper, Lead Auditor
Van Warmke, Senior Auditor
Steven Gibson, Auditor
Perrin Gleaton, Auditor
Suzanne Noland, Auditor

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Appendix III

Report Distribution List

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Associate Chief Information Officer, Information Technology Services OS:CIO:I
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Director, Enterprise Networks OS:CIO:I:EN
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 Director, Enterprise Networks OS:CIO:I:EN
 Manager, Program Oversight Office OS:CIO:SM:PO

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Appendix IV

Outcome Measures

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

Type and Value of Outcome Measures:

- Cost Savings, Questioned Costs – Actual; \$2.2 million. Potential; \$48,000 (see page 3).
- Cost Savings, Funds Put to Better Use – Actual; \$3.2 million (see page 3).

Methodology Used to Measure the Reported Benefit:

In September 2002, we reported that the Internal Revenue Service (IRS) did not have effective controls over its local telecommunications costs.¹ Specifically, the IRS did not perform an in-depth analysis of the local telephone services billing invoices to identify unauthorized charges and verify that the IRS is not being charged for telephone services at vacated offices. To address this issue, the IRS hired an outside firm to conduct an analysis of its local telecommunications costs and determine potential areas of savings. As of May 19, 2004, this analysis resulted in disallowed charges and approved refunds from the Local Exchange Carriers (LEC) of approximately \$2.2 million and an additional \$48,000 in projected refunds were pending final negotiations with the vendors. In addition, the analysis will result in cost avoidance of \$3.2 million (annual cost avoidance of \$635,000 computed over 5 years) in LEC overcharges to the IRS.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Actual; \$742,000 (see page 3).

Methodology Used to Measure the Reported Benefit:

We previously recommended the IRS perform an in-depth analysis of Treasury Communications System (TCS) invoices to identify billings for circuits and equipment that no longer exist at IRS offices.² In January 2003, the IRS completed a review of TCS billing invoices, which identified \$850,000 in unrecoverable circuit overpayments that resulted from the IRS not having disconnected services when offices were relocated. Since the prior audit report claimed a potential outcome measure of \$108,000 in questioned costs, we are claiming \$742,000 (\$850,000 - \$108,000).

¹ *Controls Over the Telecommunications Programs Continue to Need Improvement* (Reference Number 2002-20-198, dated September 2002).

² *Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract* (Reference Number 2000-10-028, dated February 2000).

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Appendix V

Management's Response to the Draft Report



CHIEF INFORMATION OFFICER

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

August 26, 2004

RECEIVED
AUG 27 2004

MEMORANDUM FOR ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: W. Todd Grams *WTG*
Chief Information Officer

SUBJECT: Management Response to Draft Audit Report –
Telecommunications Costs Controls Have Not Been
Effectively Implemented and Should Continue to Be
Improved and Monitored (Audit # 200420006 –
ECMS # 0407-63AH6TBL)

Thank you for the opportunity to review and comment on your draft report and recommendations for effectively managing the telecommunications cost controls. The Internal Revenue Service's Modernization and Information Technology Services is committed to ensuring the most efficient and effective forms of electronic communications (i.e., voice, data, video, and wireless) are utilized at minimum cost.

The IRS has taken several measures to better manage and evaluate the effectiveness of the controls over telecommunications costs. These include implementing the Telecommunications Asset Tool (TAT) system and issuing policies and procedures on the review of long-distance telephone charges and the proper use of phone cards and cellular telephones.

Additionally, we have created an automated process to order and inventory cellular telephones, and developed a system that provides online ordering and inventory capability for phone cards. We also hired an outside firm to conduct an analysis of telecommunications areas where potential savings could be realized. As a result of the analysis, the IRS achieved some measurable benefits: \$2.2 million in recovered costs (actual) and \$48,000 in questioned costs (potential) between 1999 and May 2004. The IRS also acknowledges \$3.2 million in funds put to better use (actual) and \$742,000 in inefficient use of resources (actual).

We address the report's 14 recommendations in our attached management response. We are advising that none of the material in the draft report warrants protection under the Freedom of Information Act or other applicable laws.

If you have questions, please call me at (202) 622-6800, or have your staff call Thomas C. Mulcahy, Manager, Program Oversight Office, at (202) 283-6063.

Attachment

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

IDENTITY OF RECOMMENDATION #1:

The Chief Information Officer should ensure the IRS continues to monitor the controls over its telecommunications costs as a reportable condition until the remaining control deficiencies are resolved.

CORRECTIVE ACTION #1:

The IRS will continue to monitor controls over its telecommunications costs and maintain it as a reportable condition until deficiencies are resolved.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED May 1, 2005

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN #1:

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies. Additionally, a monthly meeting is held to discuss progress and resolve problems.

IDENTITY OF RECOMMENDATION # 2:

The Chief Information Officer should ensure quarterly call detail reports are manually distributed until the problems associated with implementing the Waste, Fraud, and Abuse (WFA) Reports system have been sufficiently addressed.

CORRECTIVE ACTION # 2:

Two of the four problems that caused the deficiencies in the initial reports were corrected in April 2004. With the corrections, Enterprise Networks is implementing automated distribution of the quarterly call detail reports in August 2004. The two remaining problems will be corrected with the implementation of the Active Directory which requires employees to use their Standard Employee Identification (SEID) code to access the IRS computer network; and a modification to the system that will allow a manager to designate a proxy manager.

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Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED May 1, 2005

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 2:

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.

IDENTITY OF RECOMMENDATION # 3:

The Chief Information Officer should ensure the Waste, Fraud and Abuse (WFA) reports system is modified to permit an assessment of calls as "Unauthorized" and require "Follow up" calls to be resolved as "Valid" or "Unauthorized".

CORRECTIVE ACTION #3:

Enterprise Networks submitted a change request to the contractor to change the STATUS indicators from "Valid" and "Follow-up" to "Accept" and "Reject". Further selections under "Reject" will include: "Closed – Employee did not make call", "Closed – See manager" - followed by free form comments, and "Closed – Resolved" (manager received additional information needed to verify the call) – followed by free form comments to be entered by the manager. The information will be used to develop the data and provide the data to local management for further actions, if necessary.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED May 1, 2005

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 3:

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.

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Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

IDENTITY OF RECOMMENDATION # 4:

The Chief Information Officer should ensure a reporting feature is added to the Waste, Fraud, and Abuse (WFA) Reports system to identify the results of the managerial reviews, including the timeliness of management's review, the assessment on the validity of the call, and trends of repeated unaccounted for use of Federal Government telephones and phone cards. Management should also follow up on the trends of calls with questionable usage.

CORRECTIVE ACTION #4:

A reporting feature is being added to the system that will allow a report to be run that identifies the nature and timeliness of the managers' decisions as recorded on the system using the categories of "Accept" and "Reject". These reports will be provided quarterly to Business Operating Division (BOD) management to determine if decisions were appropriate and to the Chief Human Capital Officer to determine if there are any labor/employee relations issues to resolve.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED April 1, 2005

RESPONSIBLE OFFICIAL(S):

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 4:

Enterprise Networks will track and monitor the implementation of all initiatives. WFA Business Operating Division Points of Contact have been identified and will play a key role of coordinating with their respective BODs.

IDENTITY OF RECOMMENDATION # 5:

The Chief Information Officer should ensure the TAT Project Team reviews the call detail records to identify potential Automated Number Identification (ANI) issues and takes the necessary actions to resolve these issues.

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

CORRECTIVE ACTION #5:

The Director, End User and Equipment Services, and Director, Enterprise Networks, issued a memorandum, dated June 21, 2004, advising field locations that effective January 3, 2005, each official IRS site will be required to deliver the true 10-digit originating telephone number of each calling party to the FTS long-distance carrier. This ANI policy will allow the originating telephone number to be passed through the FTS network for reporting purpose. Additionally, sites were advised to notify Enterprise Networks of any impediments to achieving that objective. We are now in the process of gathering that data.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED February 1, 2005

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 5:

Beginning August 2, 2004, the subject of ANI is being discussed on a bi-weekly basis (as needed) as part of the regular conference call with National Office, Field Communications Specialists and management. Such discussions will continue as needed.

IDENTITY OF RECOMMENDATION # 6:

The Chief Information Officer should ensure the TAT Project Team continues to work with the CADS Program Office to ensure the information in the CADS system is complete and accurate.

CORRECTIVE ACTION # 6:

The TAT database links with the Corporate Authoritative Directory Service (CADS) to match the telephone number with the employee assigned and, consequently, the manager of that employee. CADS obtains its employee and manager data from Human Resources Connection (HR Connect). Discrepancies in both HR Connect and CADS have led to invalid data in our reports. We are revising the TAT database to permit an Administrator to run filters to collect and identify invalid data provided by HR Connect. This will allow us to determine missing names or email addresses for managers; missing BOD identification; missing login/user identification or invalid telephone numbers (e.g., 10 zeroes, non-numeric characters, spaces). The TAT team is working with the Point-of-

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

Contacts in the HR Connect Project Office to ensure they keep HR Connect up-to-date.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED April 1, 2005

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 6:

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.

IDENTITY OF RECOMMENDATION # 7:

The Chief Information Officer should ensure the variance percentage is evaluated to ensure the setting is appropriate for each site.

CORRECTIVE ACTION # 7:

A memorandum will be issued by September 3, 2004, requiring the mandatory use of the TAT e-billing process effective October 1, 2004. We will subsequently evaluate the use of the 10 percent variance for all field offices. The TAT Project Team will analyze the information and adjust the percentage accordingly. Responses from each office will be due by October 29, 2004.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED December 1, 2004

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 7

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

IDENTITY OF RECOMMENDATION # 8:

The Chief Information Officer should ensure offices are directed to use the TAT e-billing module and any obstacles to nationwide users are identified for timely resolution.

CORRECTIVE ACTION # 8:

A memorandum is being issued directing the mandatory use of the TAT e-billing process for bill payment and bill verification effective October 1, 2004. Any office, which cannot use TAT e-billing, must submit an exception request with full justification no later than September 15, 2004.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED October 1, 2004

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 8:

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.

IDENTITY OF RECOMMENDATION # 9:

The Chief Information Officer should ensure a post-implementation review is conducted to assess the effectiveness of the system in meeting the original objectives.

CORRECTIVE ACTION # 9:

Enterprise Networks will conduct a post-implementation review to determine the effectiveness of this implementation. The post-implementation review will be conducted within 60 days of Enterprise Networks accepting the TAT application. Additionally, a follow-up review will be conducted six months after the system has been fully implemented and in use.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED June 1, 2005

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 9:

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.

IDENTITY OF RECOMMENDATION # 10:

The Chief Information Officer should ensure service is immediately discontinued for cellular telephones that have not been registered in the national database.

CORRECTIVE ACTION # 10:

A memorandum from the CIO was signed on August 5, 2004, and distributed to all BODs instructing all employees who have IRS-issued cell phones to register these cell phones by September 30, 2004. Failure to register a phone will result in suspension of service to that phone until registered. Beginning October 1, 2004, the Wireless Staff will cross check non-validated (i.e., unregistered) phones and attempt to identify the users. By October 18, 2004, the Wireless Staff will suspend service on any remaining non-validated phones. Completion of suspended service should be accomplished by October 31, 2004. Employees will have an opportunity to protest and register their phones prior to the end of the calendar year. However, phones remaining on suspended service on December 31, 2004, will have service terminated and the number will be dropped from our inventory.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED January 2, 2005

RESPONSIBLE OFFICIAL

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 10:

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

IDENTITY OF RECOMMENDATION # 11:

The Chief Information Officer should ensure policies and procedures are developed for completing the annual inventory validation and reporting the inventory results.

CORRECTIVE ACTION # 11:

Policies and procedures regarding the Cell Phone program are part of the Wireless Electronic Ordering System web page. They are also documented in the Internal Revenue Manual (IRM) 2.13.4.

A memorandum from the CIO was signed on August 5, 2004, and distributed to all BODs instructing all IRS employees who have IRS- issued cell phones to register these cell phones by September 30, 2004. Failure to register a phone will result in suspension of service to that phone until registered. Beginning October 1, 2004, the Wireless Staff will cross check non-validated (i.e., unregistered) phones and attempt to identify the users. By October 18, 2004, the Wireless Staff will suspend service on any remaining non-validated phones. Completion of suspended service should be accomplished by October 31, 2004. Employees will have an opportunity to protest and register their phones prior to the end of the calendar year. However, phones remaining on suspended service on December 31, 2004, will have service terminated and the number will be dropped from inventory.

The annual validation process already described in the cell phone policy statement will be followed annually in the same manner as described above. Additionally, we are making improvements to the web site which will enable more effective validation process. These improvements are expected to be completed by December 1, 2004.

IMPLEMENTATION DATE:

COMPLETED PROPOSED January 2, 2005

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 11:

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

IDENTITY OF RECOMMENDATION # 12:

The Chief Information Officer should ensure a complete and accurate inventory of cellular telephones is established as an interim measure until the inventory management and billing function can be added to the TAT system.

CORRECTIVE ACTION # 12:

The requirement for a complete and accurate inventory will be fully met once we implement the actions described in Corrective Actions #10 & 11. However, an accurate cell phone inventory is not contingent upon the implementation of the TAT system. Once the TAT program is fully accepted and the post-implementation review is conducted, a determination will be made as to whether the inclusion of a cell phone inventory module in the TAT system is a cost effective solution for the Government.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED February 1, 2005

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 12:

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.

IDENTITY OF RECOMMENDATION # 13:

The Chief Information Officer should ensure policies and procedures are developed for completing the annual inventory and validation and reporting the inventory results.

CORRECTIVE ACTION # 13:

Currently IRM 2.13.4 describes Phone Card policies and procedures. Draft policies and procedures were developed in May 2004 and are being reviewed. Enterprise Networks will share inventory reports with the Business Operating Division management by September 30, 2004. These procedures will be placed in a Detroit Computing Center Phone Card Staff Desk Guide by November 2004.

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED December 1, 2004

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 13:

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.

IDENTITY OF RECOMMENDATION # 14:

The Chief Information Officer should ensure a complete inventory of phone cards is established prior to migrating the inventory management and billing function to the TAT system and that annual phone card inventories are completed on a consistent basis.

CORRECTIVE ACTION # 14:

The Calling Card Ordering System contains an accurate inventory of the 37,000 Sprint/AT&T phone card inventory. Enterprise Networks' management recently made the decision to transition all Sprint phone cards to AT&T phone cards.

In April 2004, Enterprise Networks began an annual audit/revalidation process for Sprint phone cards by the Business Operating Divisions, which is being conducted simultaneously with the transition of the phone cards to AT&T. The transition to AT&T is expected to be completed in November 2004.

The completion of a valid phone card inventory is not contingent upon implementation of the TAT system. Once the TAT program is fully accepted and the post-implementation review is conducted, a determination will be made as to whether the inclusion of a phone card inventory module in the TAT system is a cost effective solution for the Government.

IMPLEMENTATION DATE:

COMPLETED _____ PROPOSED December 1, 2004

Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored

Management Response to Draft Audit Report - Telecommunications Costs Controls Have Not Been Effectively Implemented and Should Continue to Be Improved and Monitored (Audit # 200420006)

RESPONSIBLE OFFICIAL:

Director, Enterprise Networks OS:CIO:I:EN

CORRECTIVE ACTION MONITORING PLAN # 14

Enterprise Networks has developed an action plan to track and monitor the resolution of all deficiencies.