

**The Department of the Treasury Needs to
Improve Its Management of Employee Express
System Funds**

September 2005

Reference Number: 2005-10-153

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

September 20, 2005

MEMORANDUM FOR CHIEF INFORMATION OFFICER, DEPARTMENT OF THE
TREASURY

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Department of the Treasury Needs to
Improve Its Management of Employee Express System Funds
(Audit # 200510013)

This report presents the results of our review of the Employee Express System. This audit was conducted to evaluate the services and benefits provided by the Employee Express System to determine whether use of this System is cost effective.

The Office of Personnel Management Employee Express System was developed in 1994 as a means for Federal Government employees to make changes to their payroll information such as pay allotments and deductions. In 2003, the Department of the Treasury's (the Treasury) payroll service provider, the National Finance Center (NFC), began offering its customers an alternative to the Employee Express System, referred to as the Employee Self-Service Option. This Option was offered to NFC customers at no additional charge. However, it does not yet appear feasible for the Treasury to convert from the Employee Express System to the Employee Self-Service Option offered by the NFC.

The Treasury and its bureaus plan to continue using the Employee Express System until the NFC completes planned upgrades to its Employee Self-Service Option software and a restructuring of its pricing plan. The NFC Employee Self-Service Option does not offer telephone access for employees to make changes to their NFC accounts. In addition, it does not offer telephone access to a Help Desk or have the ability to retain historical information needed for employees' Official Personnel Files. The Internal Revenue Service (IRS) and the NFC are working to address these areas, but some solutions are in the preliminary stages of planning. Furthermore, the NFC plans to change its price structure in Fiscal Year (FY) 2006. This price structure is not yet available; consequently, it is not possible to determine if a transition to the NFC Employee Self-Service Option would be cost effective.

Notwithstanding, the Treasury needs to improve its management of the funds contributed by its bureaus for use of the Employee Express System. The Treasury bureaus that had their Employee Express System accounts managed by the Treasury HR Connect Program Office¹ had accumulated large surplus fund balances for the Employee Express System; nonetheless, the HR Connect Program Office continued to bill the bureaus each year. For example, the IRS had a balance of about \$1.6 million at the end of FY 2004; however, the HR Connect Program Office sent the IRS a bill for an additional \$250,000 in FY 2005—even though the IRS' actual costs for FY 2004 were just \$375,027. The HR Connect Program Office did not notify the bureaus that they had paid sufficient funds to cover the expected annual costs of the Employee Express System. For FYs 2002 through 2004, the Treasury HR Connect Program Office made mathematical errors that resulted in overstated billing documents being sent to the bureaus, including over \$526,000 erroneously billed to the IRS. The IRS was also billed \$842,359 for future development costs that the HR Connect Program Office could not support.

We recommended the Associate Chief Information Officer (CIO), HR Connect Program Office, clearly define the Office's role and responsibilities for managing the Employee Express System, communicate those responsibilities to the supported Treasury bureaus, and notify bureaus that they have paid excessive funds for the Employee Express System so surplus amounts can be refunded or applied to future Employee Express System costs. We also recommended the Associate CIO, HR Connect Program Office, establish a quality review process for the Office's budget preparation, ensure Collection Letters show how much funding is being requested for the Employee Express System, and disclose to bureaus how much funding is already available. Finally, we recommended the IRS Chief, Agency-Wide Shared Services, request detailed supporting information, including fund balances, before authorizing payment for Employee Express System costs.

Management's Response: Treasury and IRS management agreed with our recommendations and initiated corrective actions to address the problems identified in the report. These actions include better defining the HR Connect Program Office's roles and responsibilities for managing the Employee Express System accounts and transmitting this information by memorandum to the Treasury bureaus through the HR Connect/NFC Payroll Operations Governance Board. The HR Connect Program Office notified all Treasury bureaus of the surplus funds in their accounts and gave them an option to either receive a refund or apply the funds toward future Employee Express costs. The HR Connect Program Office will review budget estimates, along with current account balances, before they are sent to the Treasury bureaus. In addition, all calculations used to obtain the budget estimate will be clearly noted and all assumptions

¹ For the period covered by this review, what is now known as the HR Connect Program Office changed names and reporting structure. It was called the Office of Human Resources Enterprise Solutions until September 2003. At that time, certain functions were split into the Office of Workforce Technology and the Office of Workforce Strategy and Effectiveness until May 2004, and then these functions were aligned under the HR Connect Program Office.

will be recorded. The HR Connect Program Office will request that the Deputy Chief Financial Officer revise the Collection Letter to include a budget line item specifically for the Employee Express System to show how much of the funding request is related to the System. The HR Connect Program Office will inform bureaus of their account balances before the Collection Letters are presented to bureau officials for approval. The IRS Chief, Agency-Wide Shared Services, requested that \$750,000 of the IRS' Employee Express System balance be used to cover future HR Connect operations and maintenance costs. In addition, the Office of Agency-Wide Shared Services will review and substantiate future billings and cost estimates for the Employee Express System and other programs billed through the Treasury's Working Capital Fund.²

Treasury management has taken actions to address the fund balances in the Employee Express System accounts for the Treasury bureaus managed by the HR Connect Program Office, which includes the \$1,688,771 in estimated savings from our recommendations. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to 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.

² A Working Capital Fund is a revolving fund authorized by law to finance a cycle of operations in which the costs for goods or services provided are charged back to the recipient.

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Background

The Office of Personnel Management (OPM) Employee Express System was developed in 1994 as a means for Federal Government employees to make changes to their payroll information such as pay allotments and deductions. The Employee Express System interfaces with payroll systems and allows employees to make changes electronically via computer or touchtone telephone, thus avoiding the need for paper forms and involvement of human resources personnel. The Employee Express System was developed and funded by a group of Federal Government agencies (referred to as the Employee Express User Board) with the goal of sharing resources and technology to produce a uniform system for all employees. In Fiscal Year (FY) 2005, 25 agencies used the Employee Express System to service 826,700 employees.

The Department of the Treasury (the Treasury) and its bureaus are members of the Employee Express User Board. Treasury employees use the Employee Express System to make changes to their pay information. Table 1 shows the numbers and types of transactions that Treasury employees initiated through the system during FY 2004.

Table 1: FY 2004 Employee Express System Transactions by Treasury Employees

Transaction Type	Number of Transactions	Percentage of Total
Thrift Savings Plan (TSP) Changes	59,829	22.6%
Financial Allotment Start/Stop	57,902	21.9%
Federal Tax Withholding Changes	33,861	12.8%
View History (no changes)	30,766	11.6%
Home Address Changes	16,964	6.4%
State Tax Withholding Changes	15,765	6.0%
Savings Bond Changes	15,094	5.7%
Direct Deposit Changes	14,698	5.6%
Federal Health Benefit Changes	12,546	4.7%
Personal Identification Number (PIN) Request	6,429	2.4%
All others	769	0.3%
Total	264,623	100.0%

Source: The Employee Express System.

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During our audit of the implementation of the Treasury's human resources management information system, the HR Connect System,¹ we identified several systems the Treasury intended to retire once the implementation was complete. It was originally planned that the HR Connect System would replace the National Finance Center (NFC) payroll system used by all Treasury bureaus and provide all payroll functions, including the self-service capabilities provided by the Employee Express System.

However, in FY 2003, the Federal Government began its E-Payroll initiative, which called for the reduction of the number of Federal Government payroll systems. Under E-Payroll, the 26 existing payroll systems were to be combined into 4 payroll systems that serviced all agencies. The four systems included:

- The Department of Agriculture NFC.
- The Department of Defense Finance and Accounting Services.
- The Department of Interior National Business Center.
- The General Services Administration National Payroll Center.

Consequently, the Treasury and all of its bureaus continued to use the NFC rather than convert to the HR Connect System payroll module. Furthermore, the Treasury continued to use the Employee Express System because of its ability to interface with the NFC.

In February 2003, the NFC added a new feature to its Employee Personal Page called the Employee Self-Service Option, which offered many of the same capabilities as the Employee Express System. During our audit of the Treasury's implementation of the HR Connect System, officials at one Federal Government agency advised us the agency had switched from the Employee Express System to the NFC Employee Self-Service Option. The agency switched because, unlike the Employee Express System, the Employee Self-Service Option was offered to NFC payroll

¹ *The Department of the Treasury's HR Connect Human Resources System Was Not Effectively Implemented* (Reference Number 2005-10-037, dated February 2005).

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customers at no additional charge. In FY 2004, 43 of the 50 agencies serviced by the NFC were allowing their employees to use the Employee Self-Service Option to process pay transactions. This audit assessed whether such a conversion at the Internal Revenue Service (IRS) would be cost effective.

This review was performed at the Treasury Office of the Chief Information Officer (CIO), HR Connect Program Office,² in Washington, D.C., during the period February through June 2005. We also obtained information from the IRS Office of the Chief, Agency-Wide Shared Services, Employee Support Services Division, in New York, New York; Austin, Texas; and Cincinnati, Ohio; the OPM Macon Technical Center in Macon, Georgia; and the Department of Agriculture NFC in New Orleans, Louisiana. 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.

Conversion to the Employee Self-Service Option Offered by the Payroll Service Provider Is Not Yet Feasible

In January 2005, at the same time we announced this review, the Treasury CIO began a study to determine the feasibility of discontinuing use of the Employee Express System and offering its employees the NFC Employee Self-Service Option as an alternative. Both the CIO study and this audit identified problems that would result if the Treasury converted to the Employee Self-Service Option at this time. Specifically, the NFC Employee Self-Service Option does not allow employees to make changes by telephone, which affects approximately 34,000 IRS employees that do not have access to a computer. In addition, the NFC must complete upgrades to provide Help Desk assistance and document retention, which are already available via the Employee Express System.

² For the period covered by this review, what is now known as the HR Connect Program Office changed names and reporting structure. It was called the Office of Human Resources Enterprise Solutions until September 2003. At that time, certain functions were split into the Office of Workforce Technology and the Office of Workforce Strategy and Effectiveness until May 2004, and then these functions were aligned under the HR Connect Program Office.

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Many IRS employees need to be able to perform payroll changes by telephone

As of June 2005, over 34,000 IRS employees did not have email and/or Internet access. In FY 2004, 36,689 (15 percent) of the 238,236 IRS Employee Express System transactions were completed using the telephone. The NFC Employee Self-Service Option is accessible only via the Internet. The lack of email/Internet capability is the primary problem with converting from the Employee Express System to the NFC Employee Self-Service Option. Table 2 shows the number of telephone and Internet transactions for Treasury bureaus during FY 2004.

Table 2: FY 2004 Employee Express System Telephone and Internet Transactions by Treasury Employees

Bureau	Internet Transactions	Telephone Transactions	Telephone Transaction Percentage
Bureau of Engraving and Printing	2,801	29	1.0%
Bureau of Public Debt	4,175	164	3.8%
Departmental Offices	3,494	72	2.0%
Financial Crimes Enforcement Network	572	9	1.6%
Financial Management Services	5,675	62	1.1%
IRS	201,547	36,689	15.4%
United States Mint	1,816	76	4.0%
Office of the Comptroller of the Currency	5,945	134	2.2%
Alcohol and Tobacco Tax and Trade Bureau	1,036	4	0.4%
Other	323	0	0.0%
Totals	227,384	37,239	14.1%

Source: IRS Agency-Wide Shared Services, Employee Support Services Division.

The NFC advised us that the costs associated with interactive voice response technology coupled with the limited projected use makes it too expensive to offer as part

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of the Employee Self-Service Option. However, the NFC would be willing to provide, at an additional expense, “live operator” support within its newly created call center to process the transactions for employees that cannot use the Employee Self-Service Option. Although this would not be “automated” or available all day and every day, it would provide a temporary alternative for the IRS campus and call site employees. However, the need for this will diminish with time. The IRS is planning to provide some employees access to the Internet following the 2005 Filing Season³ and to provide all employees this capability no later than January 1, 2006.

The NFC Employee Personal Page does not provide telephone access to a Help Desk

The Employee Express System provides its customers with access to a 12-hour telephone Help Desk every weekday. During FY 2004, the Employee Express System Help Desk responded to 40,713 requests from Treasury employees; 39,034 requests were by telephone.⁴ Table 3 shows the types of calls the Help Desk responded to during FY 2004. This service cost the IRS approximately \$43,000.⁵ Beginning in FY 2005, the OPM reorganized its cost structure for the Employee Express System; the cost for the Help Desk is now included in the standard maintenance fee of \$0.24 per employee, per month.

³ The period from January through mid-April when most individual income tax returns are filed.

⁴ The numbers of Help Desk transactions by category are for all Treasury employees; the numbers for each Treasury bureau were not available.

⁵ This figure is based upon \$0.50 per minute and includes faxing and/or emailing Federal Employee Health Benefit confirmation letters.

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**Table 3: Treasury Employees' FY 2004 Employee Express System
Help Desk Transactions**

Transaction Type	Number of Transactions	Percentage of Total
PIN Problems or Changes	28,556	70.1%
Web Issues	4,252	10.4%
Telephone Issues	3,410	8.4%
Unsupported Functions	1,360	3.3%
Callback	1,005	2.5%
Invalid User	279	0.7%
Need System Telephone Number	100	0.2%
Telecommunications Device for the Deaf Call	43	0.1%
Federal Employee Health Benefit (FEHB) Confirmation	29	0.1%
Web Email	1,679	4.1%
Total	40,713	100%⁶

Source: The HR Connect Program Office and the OPM Macon Technical Center.

The NFC Employee Self-Service Option provides web/email access to a Help Desk and is in the process of establishing a call center to handle all inquiries from human resources and payroll offices. In response to current and potential customers, the call center will also respond to calls from employees using the Employee Self-Service Option. The costs for this feature are not yet available. The NFC plans to establish interagency agreements and service level agreements based on the business requirements of each customer.

The NFC Employee Self-Service Option does not retain records required for employees' Official Personnel Folders

The OPM requires all FEHB and TSP transactions to be documented in each employee's Official Personnel Folder.⁷ The OPM granted the Employee Express System a waiver

⁶ Rounded to 100 percent.

⁷ OPM *Guide to Personnel Recordkeeping* (dated May 2005).

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that allowed it to store these transactions electronically until the employee separates from the agency. In addition, the OPM approved an Employee Express System-generated transcript as a substitute for the paper forms.

The Employee Express System has the capability to track an employee's electronic transactions indefinitely. When an employee separates from an agency, the Employee Express System produces a transcript, and the OPM automatically sends it to the address specified for each agency. The agency needs to file the transcript only one time. Therefore, the human resources offices that use the Employee Express System do not need to use resources to print and mail documents.

In FY 2004, the IRS paid the OPM \$64,680 to process 15,183 transcripts (\$4.26 per document). For FY 2005, this service is included in the \$0.24 per employee per month maintenance fee. In addition to the fees paid directly to the OPM, the IRS contracted for assistance from the Kansas City Official Personnel Folder Consolidated Site to file transcripts at a total cost of \$12,146.⁸

The NFC Employee Self-Service Option keeps records for only 1 year (26 pay periods) and does not have the capability to produce a transcript of FEHB and TSP transactions for more than 1 year. Further, it does not have an OPM-approved transcript nor a waiver to store the transactions electronically until the employee separates from the agency. Therefore, the human resources offices that use the NFC Employee Self-Service Option must file a Remote Forms Queuing System letter⁹ for transactions processed during the pay period in which they occur, to comply with OPM requirements for employees' Official Personnel Folders.

⁸ Under the existing IRS contract, the National Archives and Record Agency charges the IRS \$.80 per file for each personnel document, such as a Notification of Personnel Action (Standard Form [SF] 50).

⁹ The NFC Remote Forms Queuing System provides a status letter to the personnel office for every Health Benefits Election Form (SF 2809) and Thrift Savings Plan Election Form (TSP-1) processed through the Employee Express System. Copies of the letters are issued to the employee and retained in the employee's Official Personnel Folder. The letters have not yet been approved by the OPM.

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Consequently, if the IRS converted to the Employee Self-Service Option, it would have to dedicate personnel to request, print, sort, and mail the documents to the Kansas City Official Personnel Folder Consolidated Site. In FY 2004, IRS employees initiated 11,810 FEHB transactions and 54,022 TSP transactions. In addition to the dedicated personnel, the annual filing cost at the Kansas City Official Personnel Folder Consolidated Site would increase from \$12,146 to an estimated \$52,665.¹⁰ Moreover, the number of TSP transactions is expected to rise significantly with the elimination of the time restrictions for making changes that took effect on July 1, 2005.¹¹

The NFC is in the preliminary stages of developing the ability for retaining these transactions electronically in the Employee Self-Service Option. However, it has not determined if this service will be provided at an additional cost to its customers. Without this information, the IRS cannot perform a cost comparison of the proposed NFC Employee Self-Service Option service to that provided by the Employee Express System.

The Treasury also has concerns regarding other limitations of the Employee Self-Service Option, including its inability to provide proof of health insurance coverage if a health insurance card is not received before the effective date and lack of the option to make contributions and/or change contributions to the Combined Federal Campaign during its open season. The NFC advised us that the Employee Self-Service Option will be able to provide proof of health insurance coverage by January 2006. The NFC does not have any plans to develop an option to make or change contributions to the Combined Federal Campaign, but it may consider this option in the future.

¹⁰ Computed as 11,810 FEHB transactions + 54,022 TSP transactions = 65,832 documents per year; 65,832 documents at \$0.80 per document = \$52,665.60 per year.

¹¹ Thrift Savings Plan Open Elections Act of 2004, Pub. L. No. 108-469, 118 Stat 3891 (2004) eliminates the TSP open season and allows elections to become effective no later than the first full pay period after they are filed. IRS employees will use the Employee Express System to make these elections after June 30, 2005.

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The NFC is changing the price structure of its services

In FY 2005, the NFC included the cost of the Employee Self-Service Option as part of its overall payroll services cost, regardless of whether the Option was used by the customer. The NFC has a study underway to separately charge for certain applications, such as the Employee Personal Page and the Employee Self-Service Option, to more accurately bill its customers. The NFC anticipates having this capability in FY 2006. Depending upon the services selected, the new price structure could change Treasury payroll service costs. The NFC does not expect the costs offered under this structure to be available until September 2005 and could not provide any preliminary cost data for the Employee Self-Service Option.

The price structure for the Employee Express System also changed in FY 2005. Agencies now pay a flat rate of \$0.24 per employee each month for account maintenance, plus an apportionment of development costs. There are no “per transaction” charges. The OPM bills quarterly based upon the number of employees processed by the NFC payroll service. Table 4 shows the amounts the IRS paid for the Employee Express System in FYs 2002 through 2004.

**Table 4: IRS Employee Express System Costs
(FYs 2002 Through 2004)**

Fiscal Year	Operating and Development Costs
FY 2002	\$373,128
FY 2003	\$499,616
FY 2004	\$375,027
Total	\$1,247,771

Source: The HR Connect Program Office.

The Treasury will be unable to determine if the NFC Employee Self-Service Option is a cost-effective alternative to the OPM Employee Express System until the NFC provides the costs under the new structure. The Treasury will also need to consider the possibility of incremental costs associated with other improvements that are under development, such as the ability to retain transaction histories.

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The Department of the Treasury Overbilled the Internal Revenue Service and Other Bureaus for Their Shares of Employee Express System Costs

The Treasury HR Connect Program Office manages some of the bureaus' Employee Express System accounts. The HR Connect Program Office prepares the annual budget for anticipated Employee Express System costs for each bureau and transfers the funds electronically from the bureaus into the Treasury Working Capital Fund.¹² These funds are later electronically transferred to the OPM to pay for Employee Express System costs. The OPM provides the HR Connect Program Office with a quarterly billing summary that includes maintenance and development expenditures, as well as the account balances.

The billing summaries for the bureaus managed by the HR Connect Program Office showed balances of funds available for the Employee Express System that appeared far greater than 1 year's worth of anticipated costs. We compared the yearend available balances with the actual costs of the Employee Express System for FY 2004 for these bureaus. We also compared the yearend balances with annual costs for the bureaus that are not managed by the HR Connect Program Office. Table 5 shows the account balances for the bureaus managed by the HR Connect Program Office compared with those of the bureaus that manage their own accounts.¹³

¹² A Working Capital Fund is a revolving fund authorized by law to finance a cycle of operations in which the costs for goods or services provided are charged back to the recipient.

¹³ Table 5 does not include bureaus affected by the creation of the Department of Homeland Security or bureaus created in FY 2004.

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**Table 5: Employee Express System Account Balances Compared
With FY 2004 Costs**

Bureau	FY 2004 Ending Balance	FY 2004 Actual Cost	Percentage
<i>Bureaus Managed by the HR Connect Program Office</i>			
Bureau of Engraving and Printing	\$33,497	\$5,241	639.1%
Financial Management Services	\$49,991	\$8,421	593.6%
IRS	\$1,604,175	\$375,027	427.7%
Office of the Comptroller of the Currency	\$75,645	\$9,148	826.9%
Totals	\$1,763,308	\$397,837	443.2%
<i>Bureaus Managing Their Own Accounts</i>			
Bureau of Public Debt	\$14,252	\$6,621	215.3%
Departmental Offices	\$5,657	\$5,673	99.7%
Office of the Inspector General ¹⁴	\$3,546	\$785	451.7%
United States Mint	\$9,925	\$5,006	198.3%
Totals	\$33,380	\$18,085	184.6%

Source: The HR Connect Program Office and the OPM.

To determine why the fund balances kept on account at the OPM were so much greater than the annual expenditures, we further analyzed the IRS funds on account with the OPM, the Treasury billings for each year, and the actual costs for the Employee Express System for FYs 2002 through 2004. During this time period, the IRS funds on account with the OPM for the Employee Express System increased by approximately \$688,300 (75 percent). It appears that, even though the funds on account at the beginning of each of these years were enough to pay for the next year's costs, the Treasury HR Connect Program Office continued to bill the IRS and collect additional funds. Table 6 shows the beginning balances, the amounts billed, and the actual costs for these years.

¹⁴ The Office of the Inspector General FY 2004 account balance and expenses are from October 1, 2003, through June 30, 2004.

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**Table 6: Treasury Billings to the IRS Compared With Actual Costs
for FYs 2002 Through 2004**

	FY 2002	FY 2003	FY 2004
Beginning Balances	\$915,874	\$969,746	\$1,479,201
Treasury Billings to the IRS	\$427,000	\$1,009,071	\$500,000
Actual Employee Express System Costs	\$373,128	\$499,616	\$375,027
Ending Balances	\$969,746	\$1,479,201	\$1,604,174

Source: The HR Connect Program Office and the OPM.

Although the IRS had an account balance of over \$1.6 million at the end of FY 2004, the HR Connect Program Office billed the IRS for an additional \$250,000 for FY 2005 Employee Express System costs. Based on the FY 2004 actual costs, the IRS had sufficient funding in its Employee Express System account to pay for the next 4 years of service. The HR Connect Program Office also billed the other bureaus for FY 2005 Employee Express System costs, even though these bureaus had excess account balances from previous years. The HR Connect Program Office did not consider the amounts the bureaus already had on account with the OPM before requesting additional funding in each of the past 4 years.

The HR Connect Program Office could not explain why it continued to collect additional funds each year despite the surplus account balances or why it has not returned surplus funds to the respective bureaus. We identified certain factors that contributed to this problem. There were errors in the budget estimates prepared by the HR Connect Program Office. In addition, there appeared to be poor communication between the HR Connect Program Office and the bureau officials responsible for Employee Express System funding.

The HR Connect Program Office did not properly estimate the annual budget for the Employee Express System

Each year, the OPM provides its Employee Express System customers with a worksheet for estimating costs for the next fiscal year. Prior to FY 2005, Employee Express System costs were itemized into specific services, such as

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maintenance charges, telephone access, PIN changes, and Help Desk calls. The HR Connect Program Office completed the worksheet for each bureau and prepared a billing document based on the estimated costs.

The OPM worksheet advised agencies to estimate the cost for Help Desk calls by assuming an average of 5 minutes for each call, at a cost of \$0.50 per minute. Agencies could then estimate the annual charges by using the number of calls made in the prior year. However, instead of using the number of calls made, the HR Connect Program Office estimated the bureaus' Help Desk costs by using the number of minutes from the prior year and then multiplied that by 5 minutes. This resulted in an overestimate of charges by approximately 500 percent. Table 7 shows the effect of this mathematical error on the amount the HR Connect Program Office billed the IRS for Employee Express System costs for FYs 2002 through 2004.

Table 7: HR Connect Program Office Estimates for IRS Help Desk Costs Compared With Actual Help Desk Costs in FYs 2002 Through 2004

Fiscal Year	HR Connect Program Office Estimate for Help Desk Costs	Actual Help Desk Costs ¹⁵	Difference
FY 2002	\$201,407	\$42,503	\$158,904
FY 2003	\$212,515	\$49,716	\$162,799
FY 2004	\$248,578	\$43,414	\$205,164
Totals	\$662,500	\$135,633	\$526,867

Source: The HR Connect Program Office and the OPM.

The HR Connect Program Office made this error in each year for every bureau it supported. The HR Connect Program Office did not consider that the funds it requested were disproportionately higher than the amounts that had been expended in the prior year. In FY 2005, the OPM began charging customers a flat fee of \$0.24 per employee per month for all maintenance expenditures including the

¹⁵ Includes costs to fax and mail FEHB confirmation letters.

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Help Desk, so the HR Connect Program Office did not make the same mistake in FY 2005.

In addition, in FYs 2002 through 2004, the HR Connect Program Office billed the IRS a total of \$842,359 for future system development costs for the Employee Express System. However, approximately \$178,400 was actually spent during that time. The HR Connect Program Office could not provide documentation supporting the charges to the IRS. A Financial Specialist for the HR Connect Program Office claimed an IRS employee verbally requested that the funds be included for FYs 2002 and 2003. We could not verify this with the IRS because the employee died in 2003. The HR Connect Program Office Financial Specialist could not remember who requested additional developmental funding for FY 2004. Table 8 shows the effect of the future development funding on the funding request to the IRS for the Employee Express System.

Table 8: Effect of the Future Development Costs on the HR Connect Program Office Collections From the IRS

	FY 2002	FY 2003	FY 2004
Maintenance Costs ¹⁶	\$367,241	\$350,776	\$375,724
Unsupported Future Development Costs	59,759	658,325	124,276
Totals	\$427,000	\$1,009,101	\$500,000

Source: The HR Connect Program Office.

Although the IRS had paid for the future developmental costs, neither the HR Connect Program Office nor the IRS requested to be reimbursed for the funding when it became apparent that these costs would not be incurred. Furthermore, the funding was not applied to future maintenance costs for the Employee Express System. The unused future development costs and the error in estimating Help Desk costs contributed to the IRS' large account balance.

¹⁶ Includes monthly operations, PIN generation, telephone support, data transcription, transaction reports, and the erroneously charged Help Desk costs.

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Collection documents need to be more clearly itemized

The HR Connect Program Office did not adequately notify the bureaus of their outstanding credit balances when it prepared annual Collection Letters. Instead, bureaus were provided with collection documents that consolidated Employee Express System costs with NFC payroll costs. As the Program's manager, the HR Connect Program Office should alert the bureaus that surplus funds exist in the annual Collection Letters. In addition, the Collection Letters should itemize Employee Express System costs so bureau officials can determine if sufficient funds have been provided.

In January 2005, IRS officials realized the IRS had a large credit balance and requested that the HR Connect Program Office advise the OPM to deobligate and return surplus funds. Nonetheless, the HR Connect Program Office did not submit the request to the OPM until May 2005.

In FY 2005, the Treasury decided to consolidate management of the Employee Express System for all Treasury bureaus under the HR Connect Program Office. This decision was made to "improve service for [the] Treasury as a whole, rather than small [b]ureaus independently trying to address issues." In light of the problems with budgeting and billing for the Employee Express System, we believe the HR Connect Program Office should clearly define its role and responsibilities as manager of the Employee Express System and inform each bureau of its responsibilities.

Recommendations

1. The Associate CIO, HR Connect Program Office, should clearly define the Office's role and responsibilities as the manager of the Employee Express System. These responsibilities should be clearly communicated to each supported bureau.

Management's Response: The Associate CIO, HR Connect Program Office, agreed to better define the Office's roles and responsibilities in managing the Employee Express System accounts and to transmit this information by memorandum to the Treasury bureaus

The Department of the Treasury Needs to Improve Its Management of Employee Express System Funds

through the HR Connect/NFC Payroll Operations Governance Board.

2. The Associate CIO, HR Connect Program Office, should notify Treasury bureaus of surplus funds in Employee Express System accounts so surplus amounts can be refunded or applied to future Employee Express System costs.

Management's Response: On June 24, 2005, the Associate CIO, HR Connect Program Office, notified all Treasury bureaus of the surplus funds in their accounts and gave them a choice to either receive a refund or apply the funds toward future Employee Express System costs.

3. The Associate CIO, HR Connect Program Office, should establish a quality review process for future budget estimates for the Employee Express System to ensure calculations are correct and there is adequate documentation to support charges to the Treasury bureaus.

Management's Response: The Associate CIO, HR Connect Program Office, will review budget estimates, along with current account balances, before they are sent to the Treasury bureaus. In addition, all calculations used to obtain the budget estimates will be clearly noted and all assumptions will be recorded.

4. When preparing Collection Letters, the Associate CIO, HR Connect Program Office, should identify how much of the request is related to the Employee Express System and how much funding is already on account for each bureau.

Management's Response: The HR Connect Program Office will request that the Deputy Chief Financial Officer revise the Collection Letter to include a budget line item specifically for the Employee Express System to show how much of the funding request is related to the System. The HR Connect Program Office will inform bureaus of their account balances before the Collection Letters are presented to bureau officials for approval.

**The Department of the Treasury Needs to Improve Its
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5. The IRS Chief, Agency-Wide Shared Services, should request detailed supporting information, including fund balances, before authorizing payment for Employee Express System costs. This would also be applicable for other Working Capital Fund payments.

Management's Response: The IRS Chief, Agency-Wide Shared Services, reconciled the IRS' Employee Express System balance and reallocated \$750,000 in funding overages. The Chief, Agency-Wide Shared Services, also agreed to review quarterly statements, substantiate all actual and estimated cost information, reconcile account balances for the Employee Express System, and initiate action to review future billings and cost estimates for other Office of Agency-Wide Shared Service programs billed through the Treasury's Working Capital Fund.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the services and benefits provided by the Employee Express System to determine whether use of this System is cost effective. Specifically, we assessed if it would be cost effective and practical for the Department of the Treasury (the Treasury) bureaus (including the Internal Revenue Service (IRS)) to convert from the Employee Express System to the National Finance Center (NFC) Employee Self-Service Option. To accomplish our audit objective, we:

- I. Evaluated the IRS and Treasury decision to use the Office of Personnel Management Employee Express System and determined whether alternatives exist.
 - A. Identified the basis for the decision to use the Employee Express System.
 - B. Determined the IRS' needs for delivering employee information.
 - C. Interviewed Treasury and IRS officials to obtain their perspectives on the advantages or weaknesses of the Employee Express System and alternative systems, specifically the NFC Employee Self-Service Option.
- II. Compared the capabilities of the Office of Personnel Management Employee Express System with the NFC Employee Self-Service Option.
 - A. Identified the capabilities of each System.
 - B. Determined whether the IRS' needs would be met through the NFC Employee Self-Service Option.
- III. Performed benchmarking of the Employee Express System and Employee Self-Service Option.
 - A. Identified Federal Government agencies using the NFC Payroll System.
 - B. Identified Federal Government agencies using the Employee Express System.
 - C. Interviewed officials with other Federal Government agencies to determine the rationale for their use of the Employee Express System or alternatives.
- IV. Determined the costs of using the Employee Express System and Employee Self-Service Option.
 - A. Interviewed Employee Express System and Employee Self-Service Option representatives.
 - B. Reviewed billing documents and usage reports for costs associated with the Employee Express System.

**The Department of the Treasury Needs to Improve Its
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Appendix II

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

Rosemarie M. Maribello, Lead Auditor

Joseph P. Smith, Senior Auditor

Richard J. Viscusi, Senior Auditor

**The Department of the Treasury Needs to Improve Its
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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Associate Chief Information Officer for HR Connect, Department of the Treasury OCIO
Deputy Commissioner for Operations Support OS
Chief, Agency-Wide Shared Services OS:A
Director, Employee Support Services OS:A:EES
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Management Controls OS:CFO:AR:M
Audit Liaison: Chief, Agency-Wide Shared Services OS:A

**The Department of the Treasury Needs to Improve Its
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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on Department of the Treasury (the Treasury) operations. This benefit will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Funds Put to Better Use – Actual; \$1,688,771 for excessive fund balances in Employee Express System accounts for Treasury bureaus managed by the HR Connect Program Office (see page 10).

Methodology Used to Measure the Reported Benefit:

At the end of Fiscal Year (FY) 2004, the Treasury bureaus managed by the HR Connect Program Office had fund balances of \$1,763,308. In FY 2005, the Treasury collected an additional \$323,300 for a total fund balance of \$2,086,608. We compared the beginning-of-year fund balance to the actual FY 2004 cost of the Employee Express System of \$397,837 to arrive at \$1,688,771 in surplus funds that should be refunded and put to better use.

**Employee Express System Account Balances Compared With FY 2004 Costs
Bureaus Managed by the HR Connect Program Office**

Bureau	FY 2004 Ending Balance	FY 2005 Funding	FY 2005 Credit Balance	FY 2004 Actual Cost	Surplus Fund Collections
Bureau of Engraving and Printing	\$33,497	\$15,000	\$48,497	\$5,241	\$43,256
Financial Management Services	\$49,991	\$28,000	\$77,991	\$8,421	\$69,570
Internal Revenue Service	\$1,604,175	\$250,000	\$1,854,175	\$375,027	\$1,479,148
Office of the Comptroller of the Currency	\$75,645	\$30,300	\$105,945	\$9,148	\$96,797
Total	\$1,763,308	\$323,300	\$2,086,608	\$397,837	\$1,688,771

Source: The HR Connect Program Office and the Office of Personnel Management.

The Department of the Treasury Needs to Improve Its
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Appendix V

Management's Response to the Draft Report



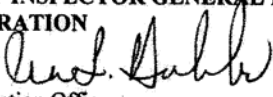
DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

RECEIVED
SEP 01 2005

SEP 1 2005

MEMORANDUM FOR PAMELA J. GARDINER
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 Needs to
Improve Its Management of Employee Express System Funds, dated
July 18, 2005 (Audit #2005-10-013)

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. Attached please find our response to your five recommendations beginning on page 15 of the report. Also, we identified no materials that require FOIA protection.

In Recommendation 4, please note that Collection Letters are prepared by the Office of the Deputy Chief Financial Officer (DCFO) and the Office of Financial Management (OFM), not the HR Connect Program Office. The Collection Letters are then issued by the DCFO.

If you have questions, please contact me on (202) 622-1200 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 Kimberly Kroszner on (202) 927-5256.

Attachment

cc:

Associate Chief Information Officer – HR Connect, Department of the Treasury
Deputy Commissioner for Operations Support OS
Chief, Agency-Wide Shared Services OS:A
Director, Employee Support Services OS:A:EES
Director, Office of Legislative Affairs CL:LA
Audit Liaison: Chief, Agency-Wide Shared Services OS:A

The Department of the Treasury Needs to Improve Its Management of Employee Express System Funds

Attachment

Draft TIGTA Report: The Department of the Treasury Needs to Improve Its Management of Employee Express System Funds, dated July 18, 2005 (TIGTA Audit 2005-10-013)

RECOMMENDATION 1: The Director, HR Connect Program Office, should clearly define the Office's roles and responsibilities as the manager of the Employee Express System. These responsibilities should be clearly communicated to each supported bureau.

CORRECTIVE ACTION: For FY 2006, The HR Connect Program Office will better define its roles and responsibilities in managing Employee Express system accounts. The Director, HR Connect Program Office, will transmit this information by memorandum to the bureaus through the HR Connect/NFC Payroll Operations Governance Board.

RESPONSIBLE OFFICIAL: Associate CIO - HR Connect

PROPOSED IMPLEMENTATION DATE: September 30, 2005

CORRECTIVE ACTION MONITORING PLAN: The roles and responsibilities will be issued to the bureaus by the proposed implementation date.

The Department of the Treasury Needs to Improve Its Management of Employee Express System Funds

RECOMMENDATION 2: The Director, HR Connect Program Office should notify Bureaus of surplus funds in Employee Express System accounts so that surplus amounts can be refunded or applied to future Employee Express System costs.

CORRECTIVE ACTION: All Bureaus were notified of the surplus funds in their accounts via a memo from the HR Connect Program office on June 24, 2005. They were given the choice between either receiving a refund or applying those funds towards future Employee Express costs. The Bureau of Engraving and Printing requested that \$15,000 (collected in Fiscal Year 2005) be refunded and The Internal Revenue Service chose to use \$750,000 of their balance to cover HR Connect (Operations and Maintenance) costs. The other bureaus for which HR Connect manages their Employee Express accounts (Financial Management Services, Office of the Comptroller of the Currency, Alcohol and Tobacco Tax and Trade Bureau, Treasury Inspector General for Tax Administration, Office of the Inspector General, Financial Crimes Enforcement Network, and Departmental Offices) requested that the surplus funds remain in their Employee Express Working Capital Fund accounts and be applied towards future costs.

PROPOSED IMPLEMENTATION DATE: June 24, 2005

COMPLETED: June 24, 2005

RESPONSIBLE OFFICIAL: Associate CIO - HR Connect

CORRECTIVE ACTION MONITORING PLAN: Bureau accounts will be monitored on a quarterly basis and bureaus will be notified of any significant changes in their Employee Express System balance.

The Department of the Treasury Needs to Improve Its Management of Employee Express System Funds

RECOMMENDATION 3: The Director, HR Connect Program Office should establish a quality review process for future budget estimates for the Employee Express System to ensure calculations are correct and that there is adequate documentation to support charges to the bureaus.

CORRECTIVE ACTION: The HR Connect Program Office conducted a thorough analysis of prior year Employee Express budget estimates and no other calculation errors were found. The Office of Personnel Management (OPM) changed their budget estimation techniques for Employee Express in Fiscal Year 2005, and therefore these mathematical errors will not be made going forward. All future budget estimates will be created according to standard operating procedures. Bureaus will be asked to provide their Employee Express workload projections for the upcoming fiscal year, and this information in combination with their system usage in the previous fiscal year will be used to estimate their funding requirement. The estimates, along with a current account balance, will then be thoroughly reviewed by a Financial Specialist and approved by the Assistant Director of Business Operations before they are sent to the bureaus. In addition, all calculations used to obtain the budget estimate will be clearly noted and all assumptions will be recorded.

PROPOSED IMPLEMENTATION DATE: September 30, 2005

RESPONSIBLE OFFICIAL: Associate CIO - HR Connect

CORRECTIVE ACTION MONITORING PLAN: Bureau accounts balances will be reviewed on a quarterly basis by a Financial Specialist in the HR Connect Program Office and bureau. Budget estimates will be reviewed and approved by both a HR Connect Financial Specialist and Assistant Director of Business Operations on an annual basis.

The Department of the Treasury Needs to Improve Its Management of Employee Express System Funds

RECOMMENDATION 4: When preparing Collection Letters, the Director, HR Connect Program Office, should identify how much of the request is related to the Employee Express System, and how much funding is already on account for each bureau.

CORRECTIVE ACTION: The HR Connect Program Office does not prepare the Collection Letters; the Office of the Deputy Chief Financial Officer (DCFO) and the Office of Financial Management (OFM) prepare the letters, which are then distributed by the DCFO. HR Connect will request that DCFO/OFM revise the Collection Letter to include a budget line item specifically for the Employee Express System to show how much of the funding request is related to the system. As the manager of Employee Express System funds for Treasury, the HR Connect Program Office will inform bureaus of their account balances before the DCFO Collection Letters are presented to bureau officials for approval. Bureaus will know their account status before the collection letters are issued for the upcoming fiscal year. Please see the Corrective Action under Recommendation 3 for a synopsis of this process.

PROPOSED IMPLEMENTATION DATE: September 30, 2005

RESPONSIBLE OFFICIAL: Associate CIO - HR Connect

CORRECTIVE ACTION MONITORING PLAN: Account balances will be reviewed by the HR Connect Program Office on a quarterly basis and bureaus will be informed of their account status before they receive the Collection Letter from DCFO.

The Department of the Treasury Needs to Improve Its Management of Employee Express System Funds

RECOMMENDATION 5: The IRS Chief, Agency-Wide Shared Services (AWSS), should request detailed supporting information, including fund balances, before authorizing payment for Employee Express System costs. This would be applicable for other working capital fund (WCF) payments.

RATIONALE FOR CLOSING: IRS' Chief, AWSS concurs with the above recommendation. As of June 24, 2005, the HR Connect Program Office (HRCPO) had reconciled IRS' WCF Employee Express balance and AWSS reallocated \$750,000 in funding overages. In FY 2006 AWSS will receive quarterly statements from HRCPO showing actual and estimated cost information related to Employee Express. HRCPO will not initiate a collection if there are sufficient funds to cover costs during the fiscal year. Additionally, AWSS will review and substantiate all Employee Express cost data and account balances will be reconciled.

Also, AWSS has initiated action to review future billings and cost estimates for other AWSS programs billed through Treasury's WCF.

COMPLETED: August 18, 2005