
Office of Inspector General

Audit Report

Cost Allocations
by the
Transportation Administrative Service Center

Report Number: MA-2000-015
Date Issued: November 5, 1999





Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Subject: **ACTION:** Report on Cost Allocations by the
Transportation Administrative Service Center
MA-2000-015

Date: November 5, 1999

From: Alexis M. Stefani
Assistant Inspector General for Auditing

Reply to JA-40
Attn of:

To: The Deputy Secretary

This report presents the results of our audit of costs allocated to the Office of the Secretary and other departmental components by the Transportation Administrative Service Center (TASC). The audit objectives were to determine:

- how the costs of services provided to departmental components were recorded and billed;
- whether bills were timely and contained enough detail for the recipient to determine if the amounts billed were correct; and
- what internal controls TASC established to ensure that the cumulative amount billed to individual departmental components did not exceed congressional limitations.

The scope of our audit and the methodology used to achieve our objectives are discussed in Exhibit A.

BACKGROUND

The Secretary established TASC in November 1995 to provide cost-effective centralized administrative services for the Department of Transportation (DOT). Currently, TASC provides 70 services, such as motor pool, printing, training, and telecommunications, to departmental components (see Exhibit B for a list of the 70 services). A significant portion of TASC services are obtained from outside sources, such as printing, building

security, and substance abuse awareness and testing. The TASC Board of Directors is made up of key officials in the Office of the Secretary and the major departmental components. The Board acts in an advisory capacity to the Deputy Secretary to help ensure TASC is a successful business enterprise. The Board is responsible for recommending approval of TASC's operating plans, budgets, rate structures, and billing formulas.

Charges for most TASC services are distributed to customers using two basic methodologies. Demand services such as motor pool, fitness center, graphics and printing are initiated by customer requests, and the bills for these services are based on the cost of providing the service and the amount the service is used. Non-demand services, such as building management, space management, and building security, are billed periodically using agreed-upon formulas, such as the square footage occupied or number of employees. The formulas for non-demand services are specified in the operating agreement between the departmental component and TASC.

TASC is financed through quarterly advances from the departmental components that use its services. As TASC provides services, it withdraws funds from the advances based on information obtained from the Departmental Accounting and Financial Information System. TASC sends bills to each departmental component so the billed amounts can be compared to the departmental components' records of services used. This comparison is an integral part of each departmental component's system of internal control.

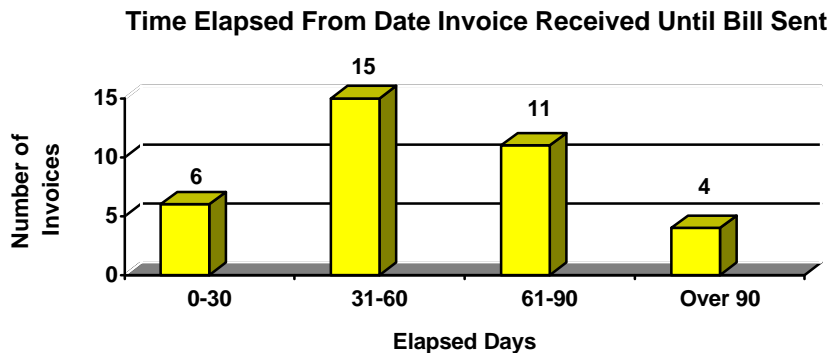
In each Fiscal Year (FY) since 1996, Congress has placed limits on the amount of services departmental components can acquire from TASC. Section 320 of DOT's FY 1999 Appropriations Act reduced TASC's spending limit to \$109 million from \$124 million, and directed that the reduction be passed on proportionately to departmental components. Although not required by the DOT Appropriations Act, the Conference Report on H.R. 4328, Making Omnibus Consolidated and Emergency Supplemental Appropriations (Conference Report) for FY 1999, directs TASC to establish a mechanism ensuring that costs billed to departmental components do not exceed the amount authorized by Congress. The House Committee Report for DOT's FY 2000 appropriations again directs TASC to ensure that departmental components do not exceed the spending limits set by Congress.

RESULTS-IN-BRIEF

TASC established effective procedures to record costs and bill them to departmental components. However, TASC bills were not timely and did not contain sufficient information for departmental components to determine if the amounts billed were for services that were properly authorized and received. A significant amount of TASC’s services are obtained from outside sources. We found that an average of 78 days elapsed from the time TASC received a contractor’s invoice until TASC billed the departmental component, and bills identified most services only in general terms, such as “Copy Centers-Nassif” (see Exhibit C). In addition, TASC has not established controls to ensure that departmental components do not exceed their spending limits for TASC services as directed in the Conference Report on the FY 1999 DOT Appropriations and reiterated in the FY 2000 House Committee Report on DOT Appropriations.

We determined that procedures to record costs were effective by reviewing invoices, credit card statements, payroll documents, and other allocation documents supporting \$12.8 million in costs and verifying that they were charged to the appropriate service. In addition, we determined that TASC followed its agreed-upon billing methodology by reviewing costs billed to departmental components for 13 services totaling \$4.1 million.

However, we found that TASC frequently did not bill customers timely for services obtained from contractors. For the 36 invoices we reviewed, an average of 78 days elapsed from the time an invoice was received from an outside contractor until a bill was sent to the departmental component that requested the service. The following shows the elapsed time for the 36 invoices we reviewed.



We also found that TASC bills did not consistently contain sufficient information for departmental components to determine if the amounts billed were for services that were properly authorized and received. Personnel responsible for verifying TASC’s bills in 9 of the 13 departmental components we reviewed stated they had to routinely request

additional information from TASC to determine the validity of their bills for at least 1 service. These personnel told us that although they would like to see detailed support for all services billed, they identified 15 of the 70 TASC services as most in need of detailed billings (see Exhibit D). This is significant because the bills for these 15 services totaled \$47 million (44 percent) of the \$108 million billed by TASC during FY 1998. The inability to determine if bills are proper compromises the effectiveness of the internal control system of the departmental components using TASC's services.

In addition, TASC has not established controls to ensure that the amount of services provided to departmental components does not exceed the FY 1999 spending limitations set by Congress. Consistent with Section 320 of the DOT FY 1999 Appropriation Act, the Office of the Secretary of Transportation advised each departmental component that its FY 1999 spending limit with TASC was reduced. However, TASC has not implemented controls to ensure that charges to individual departmental components do not exceed spending limitations as directed in the FY 1999 Conference Report and reiterated in the FY 2000 House Committee Report. Instead, TASC monitors expenditures only by the overall congressional authorization for the Department.

The TASC Director stated that he does not believe the report language requires TASC to monitor individual departmental component expenditures. We agree that TASC is not required to monitor the components' expenditures based on the direction in the report language. However, since 1996 Congress has limited TASC expenditures at the departmental level and in FYs 1999 and 2000 extended the limits to the component level. The TASC Director is concerned about the trend toward increasing congressional limitations and the impact these limitations have on TASC's ability to be cost effective and retain customers. Given these concerns, it may be prudent for TASC to comply with the direction in the report language and demonstrate a willingness to address congressional concerns even in the absence of legally binding mandates.

To address these issues, we recommend the Deputy Secretary direct TASC to:

- provide timely and detailed bills consistent with practices expected of a successful business enterprise, and
- establish controls to ensure that TASC charges to each departmental component do not exceed the limitations in the FY 1999 Conference Report and reiterated in the FY 2000 House Committee Report.

We provided a draft of this report to the Assistant Secretary for Administration and the TASC Director for review and comment. The Assistant Secretary agreed with the recommendations. The TASC Director agreed with the first recommendation but did not

agree with the second recommendation for the reason already cited. As discussed above however, it may be prudent for TASC to comply with the direction in the report language and demonstrate a willingness to address congressional concerns even in the absence of legally binding mandates.

FINDINGS AND RECOMMENDATIONS

TASC Established Effective Procedures to Record and Bill Costs

Our work showed that TASC established effective procedures to record costs and bill them to departmental components. We reviewed 6 of TASC's 70 services with \$19.7 million in total billings, selecting and verifying that \$12.8 million (\$3.4 million in direct costs and \$9.4 million in indirect costs) of these billings were supported by appropriate documentation and recorded correctly. For example, for 2 of the 6 services:

- We reviewed \$1.9 million (61 percent) of the \$3.1 million FY 1998 direct and indirect costs recorded for library services. The cost of library services included staff payroll, office supplies and miscellaneous charges, and non-capital equipment. We verified \$563,647 (32 percent) of \$1.75 million in direct costs by tracing them to source documents (e.g., payroll records, purchase orders, purchase requests, invoices, and credit card statements). We also verified the reasonableness of all \$1.35 million in indirect costs by tracing these costs to supporting allocation documents.
- We reviewed \$112,927 (16 percent) of the \$719,285 FY 1998 direct and indirect costs recorded for motor pool services. The cost of motor pool services included staff payroll, office supplies, rent, utilities, and TASC business support. We verified \$109,292 (19 percent) of \$586,728 in direct costs by tracing them to source documents. We verified the reasonableness of \$3,635 (3 percent) of \$132,557 in indirect costs by tracing these costs to supporting allocation documents.

We reviewed the methodology established to bill all 70 services to departmental components and determined that the methods TASC used were appropriate for the services provided. We also verified that TASC followed its approved methodology for charging departmental components by reviewing \$4.1 million billed for 13 services. For example,

- The approved billing methodology for dockets operations for FY 1998 was an allocation based on the percentage of actual pages of text stored on the Document Management System by the departmental component. We recalculated \$109,143 (6 percent) of \$1.9 million TASC bills for dockets operations based on the predetermined

formula and found that the bills were in accordance with the approved billing methodology.

- The approved billing methodology for telecommunications services for FY 1998 was based on a fixed rate charge per telephone line plus a TASC surcharge. Out of a total of \$7.5 million, we verified TASC bills of \$451,905 (6 percent) by multiplying the number of lines assigned to the departmental component by the rate per line, plus the TASC surcharge. Our review showed that TASC's bills for telecommunications services were in accordance with the approved billing methodology.

Timely and Sufficient Bills Not Provided

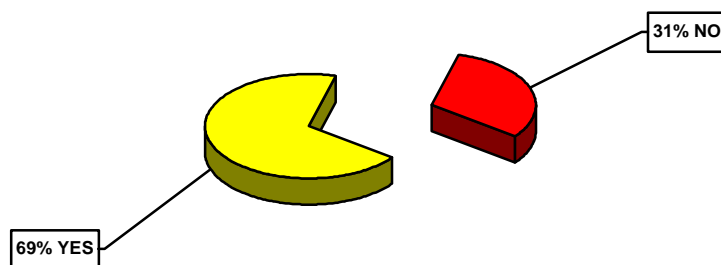
Our work showed that TASC frequently did not bill timely for services it received from outside contractors performing work it requested for customers. We reviewed 36 invoices totaling \$1.5 million and found that an average of 78 days elapsed from the time an invoice was received from an outside contractor until TASC billed the departmental component. For example,

- On August 25, 1998, TASC received an invoice from Signal Corporation for \$160,771. TASC did not bill the Office of the Secretary for Signal Corporation services until October 27, 1998, 63 days after the invoice was received.
- On February 2, 1998, TASC received an invoice from West Publishing for \$62,424. TASC did not bill the departmental components for services rendered until 71 days later on April 14, 1998.

For the 36 invoices we reviewed, 6 invoices were billed to departmental components between 0 and 30 days, 15 were billed between 31 and 60 days, 11 were billed between 61 and 90 days, and 4 were billed over 90 days.

In addition, we found TASC bills did not always contain sufficient information for departmental components to independently verify whether amounts billed were properly authorized and received. In our interviews with 13 departmental personnel responsible for verifying TASC bills, 9 (69 percent) stated they routinely requested additional information to determine the validity of TASC's bills for at least one service. The remaining 4 (31 percent) did not make routine requests for additional information, as shown in the chart below.

Percentage of Departmental Components Requesting Additional Supporting Information for at Least One Service



Although personnel responsible for verifying TASC's bills in 9 of 13 departmental components told us they would like to see detailed support for all services billed, they identified 15 of the 70 TASC services as most in need of detailed billings (see Exhibit D). Eleven of the 15 services are demand services such as library services, copy centers, satellite copiers, transit benefits, motor pool and office automation services. For example:

- The Budget Coordinator for the Federal Highway Administration who is responsible for verifying TASC bills stated that the names of individuals who received Transit Benefits were not provided with the bills. Without this information, the Administration cannot determine whether it is being billed only for its own employees. In the past, TASC has included individuals on its bills that were not Federal Highway Administration employees.
- The Staff Assistant for the National Highway Traffic Safety Administration who is responsible for verifying TASC bills requested additional information related to the motor pool. Specifically, the requested information included which employee used the motor pool, their destination, mode of transportation (e.g., taxi or Government vehicle), and day and time the trip occurred. The National Highway Traffic Safety Administration told us this information is needed to verify whether the request for motor pool services was properly authorized and for official Government purposes.
- The Budget Analyst for the Maritime Administration, who is responsible for verifying TASC bills, requested additional support for the copy centers' line item on its September 1998 bill. The Maritime Administration's bill for copy centers showed only the total amount incurred for satellite copiers and copy centers located in the Nassif building (see Exhibit C) and did not contain any additional documentation such

as the Personal Identification Number of the employee making the copies. Maritime Administration personnel told us they needed to know who made copies for both budget and control purposes.

We interviewed the Director of Business Support for TASC to determine why timely and sufficient bills are not provided. The Director stated that the billing process is a manual and labor-intensive system, requiring constant interaction among several TASC offices and individuals. Personnel responsible for preparing bills have other responsibilities such as budgeting, fund control, and resource management. In addition, TASC personnel who prepare bills are also responsible for providing additional billing detail if requested by departmental components.

Because timely and sufficiently detailed bills were not provided, departmental components could not determine the validity of bills. The inability to determine if bills are proper compromises the internal control system of the departmental components.

TASC Lacks Controls to Ensure Individual Spending Limits Are Not Exceeded

TASC has not established controls to ensure that the amount of services provided to each departmental component do not exceed congressional spending limitations. Although not required by the DOT Appropriations Act, the Conference Report on H.R. 4328, Making Omnibus Consolidated and Emergency Supplemental Appropriations for FY 1999, directs TASC to:

Establish a mechanism that ensures that TASC's budget corresponds to the budget of each of the modes responsible for paying TASC bills, guaranteeing that TASC charges to the modes are reduced to correspond to congressional reductions.

The House Committee Report for DOT's FY 2000 appropriations again directs TASC to ensure that departmental components do not exceed the spending limits set by Congress.

In FY 1999 TASC's spending limit was set at \$109 million and the Office of the Secretary of Transportation advised each departmental component that its FY 1999 spending limit with TASC was reduced. However, TASC did not establish a mechanism guaranteeing that its charges to individual departmental components did not exceed spending limitations as directed in the FY 1999 Conference Report. TASC monitors expenditures only at the overall TASC spending limit (i.e., \$109 million) and relies on each individual departmental component to monitor its individual spending limit.

Our work showed that TASC has the capability to monitor the individual spending limits for each of the departmental components, however the TASC Director does not believe the FY 1999 Conference Report or the FY 2000 House Committee Report requires TASC to monitor individual departmental component expenditures. Consequently, TASC continues to monitor its expenditures only by the overall congressional authorization.

The TASC Director stated that he does not believe the report language requires TASC to monitor individual departmental component expenditures. We agree that TASC is not required to monitor the components' expenditures based on the direction in the report language. However, since 1996 Congress has limited TASC expenditures at the departmental level and in FYs 1999 and 2000 extended the limits to the component level. The TASC Director is concerned about the trend toward increasing congressional limitations and the impact these limitations have on TASC's ability to be cost effective and retain customers. Given these concerns, it may be prudent for TASC to comply with the direction in the report language and demonstrate a willingness to address congressional concerns even in the absence of legally binding mandates.

RECOMMENDATIONS

We recommend the Deputy Secretary direct TASC to:

- provide timely and detailed bills consistent with practices expected of a successful business enterprise, and
- establish controls to ensure that TASC charges to each departmental component do not exceed the limitations in the FY 1999 Conference Report and reiterated in the FY 2000 House Committee Report.

MANAGEMENT COMMENTS

We provided a draft of this report to the Assistant Secretary for Administration for review and comment. The Assistant Secretary for Administration agreed with the recommendations presented in the report. The Assistant Secretary also provided some points of clarification that we have incorporated into the report.

We also provided the draft to the TASC Director for review and comment. The Director agreed with the first recommendation. However, the Director did not agree with the second recommendation to establish controls to monitor spending limits. The Director does not believe that the language in the Conference Report requires TASC to monitor individual departmental component expenditures. As discussed above however, it may be prudent for TASC to comply with the direction in the report language and demonstrate a willingness to address congressional concerns even in the absence of legally binding mandates.

ACTION REQUIRED

Please provide written comments within 15 days on specific actions taken or planned to address the recommendations, or any alternative course of action you believe would adequately address the findings. If I can answer any questions or be of further assistance, please feel free to contact me at (202) 366-1992 or Tom Howard, Deputy Assistant Inspector General for Maritime and Departmental Programs, at (202) 366-5630.

Attachments (4)

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SCOPE AND METHODOLOGY

We performed fieldwork at each of the departmental components and TASC. For FY 1998 TASC had 70 services with total costs of \$108 million. To determine how costs for TASC services were recorded and billed, we selected 6 of the 70 services and verified that \$3.4 million in direct costs and \$9.4 million in indirect costs were supported and correctly charged to the appropriate services. We reviewed:

- Invoices, purchase orders, payroll documents and credit card statements.
- Detail transaction, cost accounting, and revenue and expense summary reports.
- Direct and indirect cost summaries.

In addition, for all 70 TASC services, we reviewed the billing methodology used by TASC to determine whether these methods were appropriate for the service being billed. We also reviewed selected transactions totaling \$4.1 million for 13 services to determine whether TASC followed its billing methodologies.

To determine whether TASC bills were timely and properly supported, we judgmentally selected and reviewed 6 monthly bills (2 each) to Coast Guard, Federal Aviation Administration, and the Office of the Secretary. Specifically, we determined if TASC (1) billed customers timely for services rendered and (2) provided adequate supporting documentation for the amounts billed totaling \$4.1 million. To determine if customers were billed timely, we focused on services that TASC obtained from outside providers, in part, because these services were of particular concern to the DOT Assistant Secretary for Administration. We also interviewed management personnel at each of the 13 departmental components included in our review and discussed customer satisfaction with the billing system.

To evaluate TASC's procedures for controlling spending limitations, we compared the actual funds obligated by TASC to the appropriation limitations established by Congress for FY 1998. In addition, we interviewed TASC management regarding controls implemented to ensure compliance with additional spending accountability mandated by Congress in FY 1999.

We performed our fieldwork in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. We focused on TASC activities from FY 1997 to the present. Our review was conducted from November 1998 through September 1999.

LISTING OF TASC SERVICES BY BUSINESS UNIT

- | | |
|---|---|
| <p>1. Worklife Wellness</p> <ul style="list-style-type: none"> 1. DOT Connection 2. TASC Fitness Center 3. Substance Abuse Awareness and Testing <p>2. Information Systems Management Consulting</p> <ul style="list-style-type: none"> 4. Dedicated Inf. Tech Service 5. Integrated Payroll Processing Services 6. Consolidated Personnel Management Information System 7. Management Applications 8. Technology Group <p>3. Facilities Service Center</p> <ul style="list-style-type: none"> 9. Parking Management 10. Parking Fees 11. Transit Benefits 12. Shuttle Bus 13. Motor Pool 14. Personal Property 15. Building Management – Nassif 16. Nassif Building Delegation 17. Special Shuttle <p>4. Space Management</p> <ul style="list-style-type: none"> 18. Space Management 19. Rent <p>5. Acquisition Services</p> <ul style="list-style-type: none"> 20. Acquisition Services 21. Information Technology - Procurement Services 22. Customer Acquisitions – Information Technology & Procurement 23. Customer Acquisitions <p>6. Human Resource Services</p> <ul style="list-style-type: none"> 24. Personnel Operations 25. Departmental Program 26. Sign Language Interpretation <p>7. Learning and Development</p> <ul style="list-style-type: none"> 27. Training and Organizational Dev. 28. Classroom Computer Training | <p>8. Information Technology</p> <ul style="list-style-type: none"> 29. Year 2000 Services 30. Telecommunications Services 31. Tele. Special Services 32. Moves and Changes 33. Federal Telephone System 34. Voice Mail 35. Voice Mail NHTSA 36. Intermodal Data Network 37. Custom Routing Service 38. Email DOT Wide 39. Internet DOT Wide 40. Local Area Network Support Services <p>9. Information Services</p> <ul style="list-style-type: none"> 41. In House Printing 42. Contract Printing 43. Initial Distribution & Requirements 44. Subsequent Distribution 45. Warehouse 46. Mail 47. Postage 48. Copy Centers 49. Satellite Copiers 50. Photography 51. Graphics 52. Library Services 53. Library Special Services 54. Dockets Operations 55. Docket Development 56. Multi-Media Center 57. Office Automation – Customer Service 58. Office Automation – Hardware/Software 59. Office Automation – Office Auto Telecom 60. TASC Computer Center <p>10. Security Operations</p> <ul style="list-style-type: none"> 61. Office of the Secretary Protection 62. Office of the Secretary Transportation 63. Passport and Visas 64. Personnel Security 65. Security Adjudicative 66. Security and Investigations 67. Building Security – Nassif 68. Building Security – 10A 69. Building Security – Transpoint 70. Building Security – 10B |
|---|---|

EXHIBIT C

DEPARTMENT OF TRANSPORTATION - OFFICE OF THE SECRETARY
 OFFICE OF FINANCIAL MANAGEMENT - WORKING CAPITAL FUND DIVISION
 AGENCY BILLING STATEMENT FOR FY 98
 MONTH OF SEPTEMBER, 1998

RIS NUMBER WCF-81
 PAGE NUMBER 99

AGENCY: MARAD

SERVICE ACTIVITY	FY 98 / 93 CM	FY 97 / 92 CM	FY 96 / 91 CM	FY 95 / 94 CM	FY 94 CM	TOTAL
POSTAGE	6,562.33					6,562.33
PARKING MGMT	817.38	.11		11.08		828.57
TRANSIT BENEFITS	1,779.88	.15				1,780.03
SHUTTLE BUS	329.19	.01				329.20
WAREHOUSE	2,948.08	.05	31.03- 519.18-	44.14		2,442.06
BLDG MGMT - NASSIF	52,858.83 497.40-	.56	1,180.30-			51,201.69
BUILDING DELEGATION	8,844.00					8,844.00
SATELLITE COPIERS	5,944.19 .01-	.31	2.19- 7.13-	.37		5,935.54
IN-HOUSE PLANT	6,184.00					6,184.00
PRINTING-CONTRACTED	10,523.15	15.40 169.40			376.20	11,084.15
COPY CENTERS-NASSIF	4,648.19	.39	2.13- 17.30-	183.28		4,790.41
PHOTO-IN-HOUSE	234.90					234.90
INITIAL DISTRIBUTION	357.39		.29- 29.19-	.40		328.31
LIBRARY - NASSIF	13,798.57	14,657.44-	2,513.43-			3,272.30-
LIBRARY - 10A	5,944.39					5,944.39
LIBRARY- TRPT	1,683.08	229.39-				1,453.69
GRAPHICS-IN-HOUSE	74.40					74.40
502060 - NOT ON ROB	6,930.00					6,930.00
MULTI MEDIA SERVICES	1,763.29	.09	3.85-			1,759.53

The Maritime Administration requested additional support to evaluate the costs billed for the shaded services.

Services for Which Departmental Components Requested Additional Support

Service	OST	FHWA	FTA	NHTSA	MARAD	OIG	BTS	STB
Building Mgt.	X		X					
Library Services		X	X			X		
Initial Distribution			X					
Copy Centers-Nassif		X	X		X		X	
Satellite Copiers					X			
Fitness Center			X					
Transit Benefits		X						
Telecommunications		X		X	X	X		
Motor Pool				X				
Office Automation Services		X		X		X		
Personal Property								X
TASC Computer Center					X			
Departmental Accounting and Financial Information System						X		
Bldg. Security – Nassif	X					X		
Security & Investigations	X					X		

The United States Coast Guard requested additional support from TASC for all demand services. Four other departmental components (Federal Aviation Administration, Federal Railroad Administration, St. Lawrence Seaway Development Corporation, and Research and Special Programs Administration) did not request additional billing detail from TASC.

EXHIBIT D

JA-40:C.BAINES:(312) 353-0104:11/5/99 2:02 PM

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