Office of Inspector General

Audit Report

Transportation Administrative Service Center
Department of Transportation

Report Number MA-1998-073
Date Issued: February 5, 1998

Memorandum

Subject: <u>ACTION</u>: Report on the Transportation
Administrative Service Center, DOT
Report No. MA-1998-073

Date: February 5, 1998

Reply to
Attn of: JA-1
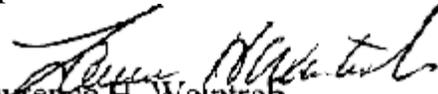
From: Lawrence H. Weintrob
Assistant Inspector General for Auditing

To: George C. Fields, Director
Transportation Administrative Service Center

BACKGROUND AND OBJECTIVES

This report presents the results of our audit of the Department of Transportation's
(DOT) Administrative Service Center (TASC). We did the audit in response to
requirements specified in Conference Report 105-313, making appropriations for
the Department of Transportation for Fiscal Year (FY) 1998. The audit objectives
were to (1) evaluate TASC's utility and cost effectiveness both to the individual
Operating Administrations and the Department in general, (2) determine whether
TASC is providing quality services that are responsive to customer needs at
competitive prices, and (3) determine whether FAA's franchise fund duplicates or
reduces the cost effectiveness of TASC. We conducted the audit in accordance
with the <u>Government Auditing Standards</u> prescribed by the Comptroller General of
the United States. We conducted the audit from September 1997 through January
1998 and focused on TASC operations from its inception in November 1995
through FY 1997.

The Department established TASC to provide its common administrative support
services.[1] A Board of Directors, composed of representatives from the Operating
Administrations, oversees TASC's operations. TASC provides 45 services, in
10 administrative support areas, primarily to DOT customers. A principal is in

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[1] TASC's mission is stated in DOT Order DOT 1100.71, as revised on April 3, 1997.

charge of each support area, or unit, and reports to the TASC Director. TASC lost about $7.3 and $2.3 million in FY 1996 and 1997, respectively. As of September 30, 1997, TASC had 290 employees.

RESULTS-IN-BRIEF

To determine if TASC was offering services that have utility, we analyzed the 45 services TASC offers and the extent customers used these services. Based on our analysis of operating results, we judgmentally selected 15 services in 8 of 10 TASC business units to review for cost effectiveness. (Exhibit A lists the services offered by TASC and the 15 services we reviewed.) In FY 1997, these 15 services accounted for 55 percent of TASC's operating expenses. We also conducted a survey of TASC customers to assess their satisfaction with the quality of services provided, TASC's responsiveness to their needs, and whether costs were competitive with similar services available from other governmental or commercial sources. Finally, we compared the services and related costs for FAA's franchise fund with TASC.

TASC Utility

The Department created TASC to provide common administrative services needed by the Department and its Operating Administrations. We assessed the 45 services TASC provides to determine if they were "common administrative services" of the type that TASC was formed to provide. For example, we reviewed the operations of the Information Services Unit and found that it provides joint use copy machines throughout the DOT Headquarters Building. By combining the needs of multiple users, TASC is able to provide high speed, high capacity copy machines that provide greater utility to users. In addition, TASC's Docket Management service tracks adjudicatory and rulemaking actions, consolidating a service that each Operating Administration had provided before. We also analyzed questionnaires returned by TASC customers and found no significant indications that TASC services lacked utility to the users. For example, TASC's Information Technology Omnibus Procurement (ITOP) function received a significant number of positive responses from customers. Typical of the comments was one respondent who commented that: "TASC was a leader in providing innovative information technology services." Based on our review, we concluded that TASC is generally providing services that have utility.

TASC Cost Effectiveness

To assess TASC's cost effectiveness, we analyzed the cost of operating each of its business units, assessed the reasonableness and propriety of overhead allocations,

and interviewed the principals of each business unit. For each of 15 selected services we reviewed expenses for reasonableness, evaluated staffing, and where appropriate, compared service fees with other governmental or commercial sources. For example, we compared the fees TASC charges for printing, reproduction, and acquisition services with those charged by other government or commercial sources. We found that TASC's printing costs for the 40 jobs tested were, on average, 25 percent lower than other printing facilities approved for use by the Government Printing Office. Similarly, TASC's reproduction costs were less than those offered by GSA and commercial sources we contacted. For example, for 500 copies of a typical 200 page bound report, TASC would have charged about $4,000, while 2 commercial sources we contacted would have charged from $4,000 - $5,000. GSA would have charged $5,000 for the same job. Finally, fees charged for TASC's Information Technology Procurement Service, range from 1-3.25 percent of the contract amount, depending on the level of involvement by the purchaser. Other government contractors' fees ranged from 1-5 percent for similar services. We concluded therefore, that TASC's fees were equal or less than those of alternate sources for printing, reproduction and acquisition services. We also surveyed TASC customers to determine their satisfaction with the cost of the services they received.

We concluded however, that not all TASC services were cost effective. Our review disclosed that the following 6 services raised substantive cost effectiveness issues.

Information Technology Operations Unit -- Computer Center Services

The TASC Computer Center provides fee-for-service mainframe data processing, bulk data storage, and high speed printing of computer generated reports. In FY 1997, the Computer Center lost $342,995 on expenses of about $14.5 million.

The Office of Management and Budget (OMB) requires Federal agencies to reduce the number of data centers and provides criteria for assessing data center effectiveness. The Computer Center is currently capable of operating at only about two-thirds of the level that OMB considers cost effective. The Computer Center's cost effectiveness is further reduced because they currently have only enough customer demand to operate at one-third of the level that OMB considers cost effective. This lack of cost effectiveness correlates closely with our customer survey results where 75 percent of the users expressed dissatisfaction with the cost competitiveness of the Computer Center.

We also obtained the evaluation report for the Computer Center prepared by a DOT consultant. This draft report concludes the Computer Center is 42 percent less efficient than similar-sized computer centers, and 118 percent less efficient

than centers operating at capacities at or above the OMB standard. Based on the consultant report and OMB standards, we conclude the Computer Center does not have the capability or the customer base to operate in a cost effective manner. Even the current customer base is in jeopardy because the Federal Highway Administration, which accounts for about three-quarters of the Computer Center's business, has indicated an interest in obtaining data processing services elsewhere. The Federal Highway Administration's Director of Information and Management Services supports closing the Computer Center and using another governmental or commercial service to process its data. Based on cost effectiveness and competitiveness, and the potential for a significant reduction in customer support, the justification for continued operation of the Computer Center is in doubt.

Learning and Development Unit -- Computer Skills Training, Organization Performance Skills Training and Organization Development Consulting Services

The Learning and Development unit provides three services: computer skills training, organization performance skills training, and organization development consulting. In FY 1997, the Learning and Development unit lost $668,478 on expenses of $1.4 million.

In FY 1997, the Learning and Development unit had total personnel compensation and benefit expenses of $661,157 for six instructors and one secretary. The revenue generated from the training provided by the instructors was $128,035, significantly less than the annual salaries of Learning and Development staff. A Learning and Development unit analysis of training hours billed during FY 1997 showed these six instructors spent only 1,136 hours teaching TASC training classes. This is only approximately 10 percent of the total professional hours available. Instead, TASC used its trainers primarily to monitor and coordinate contracted training classes. For example, one trainer assigned to the Departmental "Career Strategies" seminar acted as a registrar for students, coordinated dinner for students, greeted students and instructors, arranged for student plaques, monitored instructors' performance and provided feedback to the unit principal on contractor performance. We found the cost of contract training reasonable when compared to the cost of other government sources. However, the extensive use of professional trainers to perform mostly administrative duties is not, in our opinion, a cost effective use of Learning and Development unit resources.

Systems Development Unit -- Applications Development Services

Applications Development, a service of the Systems Development unit, provides cost reimbursable computer system design and applications programming services such as the development of management information systems for Departmental

agencies. In FY 1997, expenses for Applications Development totaled $3.6 million, resulting in a loss of $1.5 million.

The loss reported by Applications Development is primarily attributable to two factors. First, staff assigned to this unit has primarily financial management, auditing, and procurement expertise. Consequently, they lack expertise to perform Applications Development services in-house. In FY 1997, Applications Development billed only a small percentage of staff costs directly to customers and spent most of their time monitoring consultant work. Second, the overhead rate established by Applications Development is insufficient to cover its administrative costs. The Manager of the TASC Business Support Office rejected recent attempts to increase this rate by 15 percent because the increase could adversely affect cost competitiveness and erode the customer base. Instead, he recommended that Applications Development explore ways to increase its business and recoup more of its administrative costs without adversely affecting cost competitiveness. Because of the difficulty in establishing comparable services and sources, we did not make direct comparisons of Applications Development's cost with other commercial or governmental sources. However, 27 percent of the respondents to our customer survey rated Applications Development's service cost unsatisfactory. Unless Applications Development acquires needed expertise and increases its revenues to cover its administrative costs, the unit will continue to lose money and customers, and will have difficulty improving its cost effectiveness.

Information Services Unit -- Graphics Services

The Information Services unit's graphics department provides a full range of design and on-line display services using a combination of in-house staff and outside contractors. In FY 1997, graphics services lost $343,458 on expenses of $2.3 million.

In June 1997, TASC lost about 50 percent of its graphics business when the Federal Highway Administration (FHWA) decided to contract for most services directly. According to FHWA's Director of Information Services, it made the decision to avoid the 11 percent overhead factor TASC adds to contract services, which in FY 1997 totaled approximately $67,000. To determine if FHWA could save money by contracting directly, we compared the cost of one recently completed job FHWA had contracted-out with an estimate provided by TASC. We also compared the cost of two jobs that TASC had performed with an FHWA contractor estimate. For these three jobs, we found that TASC was approximately 19 percent more expensive.

TASC Service Quality, Responsiveness and Cost Competitiveness

To assess the quality, responsiveness, and cost competitiveness of TASC, we conducted a survey of customers who used TASC services at any time during FY 1997. Our customer base therefore included both satisfied customers and unsatisfied customers who have chosen to obtain services elsewhere. The survey disclosed that 95 percent of the respondents rated TASC services satisfactory or better overall. The satisfaction rate for product quality, responsiveness, and cost competitiveness ranged from 90 percent for cost competitiveness to 96 percent for responsiveness. Based on the results of our survey, we concluded that customer perception of TASC's quality, responsiveness, and cost competitiveness, is generally favorable.

FAA's Franchise Fund Does Not Significantly Impact TASC

We compared the services offered by the FAA franchise fund with TASC's. FAA's franchise fund is a $17 million a year operation located at the Mike Monroney Aeronautical Center in Oklahoma City. The fund primarily supports the Aeronautical Center and other FAA field offices by providing accounting, payroll, and printing services, whereas, TASC supports primarily DOT Headquarters. Both TASC and FAA's franchise fund offer printing services. We analyzed the jobs performed by the fund and found no significant duplication of TASC services. Because FAA and TASC primarily serve different geographic markets, FAA's franchise fund had no identifiable impact on TASC.

RECOMMENDATIONS

We recommend that the TASC Director require mangers for the Computer Center, the Learning and Development unit, Applications Development, and Graphics services to:
- Develop action plans and implementation milestones to improve the cost effectiveness of these services,
- Discontinue services that can not be made cost effective.

MANAGEMENT COMMENTS

We discussed this report with the TASC Director on February 3, 1998. He agreed to provide action plans and milestone dates for improving the cost effectiveness of the Computer Center, the Learning and Development unit, Applications Development, and Graphics services. We ask that the Director provide this information to the Office of Inspector General within 30 days.

We appreciate the courtesy and cooperation of TASC personnel. Please call me at (202) 366-1992, or Ronald H. Hoogenboom at (312) 353-0104 if you have questions.

LISTING OF TASC SERVICES BY BUSINESS UNIT

1. **ACQUISITION SERVICES**
   1. Information Technology Omnibus Procurement (ITOP)
   2. ITOP-Non-DOT Contract

2. **FACILITIES SERVICE CENTER**
   3. Facilities Management
   4. Personal Property
   5. Transit Benefit and Employee Parking

3. **HUMAN RESOURCE SERVICES**
   6. Miscellaneous Service
   7. Special Personnel Programs
   8. Personnel Operations

4. **INFORMATION SERVICES**
   9. Copy Management
   10. Distribution
   11. Dockets
   12. Graphics (in-house and contracted)
   13. Library Services
   14. Mail Management
   15. Multi-Media Center
   16. Photography (in-house and contracted)
   17. Printing
   18. Warehouse

5. **INFORMATION TECHNOLOGY OPERATIONS**
   19. E-mail Services
   20. Help Desk and LAN Services
   21. Intermodal Data Network Services
   22. Computer Center Services
   23. Telecommunications Services
   24. Telecommuting Services

6. **LEARNING AND DEVELOPMENT**
   25. Computer Skills Training
   26. Organization Development Consulting
   27. Organization performance Skills Training

7. **SECURITY OPERATIONS**
   28. Classified Control Point
   29. Executive Protection
   30. Guard Service
   31. Identification Media
   32. Investigations
   33. Lock/Key
   34. Passports and Visas
   35. Personnel Security
   36. Personnel Security Specialists
   37. Technical Security

8. **SPACE MANAGEMENT**
   38. Space Management
       Includes:
       -Acquisition and Release of Space
       -Requirements Development, and
       -Space Utilization Surveys

9. **SYSTEMS DEVELOPMENT**
   39. Applications Development Services
   40. DAFIS
   41. Dedicated Resources Services
   42. Integrated Personnel & Payroll System Services

10. **WORKLIFE WELLNESS**
    43. DOT Connection
    44. Alcohol and Drug Program (Awareness/Testing)
    45. Health and Fitness

NOTE: We judgmentally selected the 15 shaded services for in-depth review.