

DOE/IG-0516

AUDIT
REPORT

INFORMATION TECHNOLOGY
SUPPORT SERVICES
CONTRACTS



AUGUST 2001

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES



U. S. DEPARTMENT OF ENERGY
Washington, DC 20585

August 23, 2001

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman (Signed)
Inspector General

SUBJECT: INFORMATION: Audit Report on "Information Technology Support Services Contracts"

BACKGROUND

Over the last several years, there have been a number of substantial changes to the policies that govern Federal acquisition and information technology management. Beginning with the enactment of the Government Performance and Results Act of 1993 and continuing with the Clinger-Cohen Act of 1996 (Clinger-Cohen), efforts have been made to make management of the Federal information technology effort more efficient, cost-effective, and responsive to the needs of the respective agencies. Within the U.S. Department of Energy (Department) these reforms were particularly important in light of its \$1.4 billion annual information technology (IT) investment, which includes investments in research programs such as the Accelerated Strategic Computing Initiative.

During the last three fiscal years, the Department and its primary contractors awarded IT support service contracts valued at nearly \$900 million. The services typically included activities such as helpdesk and desktop support, server and network technical services, and database management and administration. To ensure that IT support services are obtained as efficiently and effectively as possible, Federal procurement authorities are increasing the emphasis on the use of existing procurement mechanisms that leverage buying power by permitting aggregation of demand across the Government.

The objective of our audit was to determine whether the Department had a comprehensive framework for the acquisition of IT support services.

RESULTS OF AUDIT

Despite initiatives sponsored by the Chief Information Officer, the Department was not effectively managing the acquisition of IT support services. For example, Headquarters and field elements routinely obtained IT support services without making maximum use of existing Federal contracts designed for this purpose. When existing contracts were used, Headquarters program elements did not coordinate or consolidate requirements. For example, the program elements issued 58 separate task orders against a single contract for the same or similar services. Despite requirements in the Clinger-Cohen Act,

the Department had not developed and implemented a framework for acquiring IT support services in an efficient and cost-effective manner. Based on its own studies, significant savings are possible if the Department adopts an enterprise-wide approach to acquiring IT support services. To be specific, we concluded that savings of as much as \$44 million may be possible over a three year period by adopting a Departmentwide approach.

The Office of Inspector General advocates full and open competition to acquire IT support services and other items at the best or lowest price available. While we recognize that existing contracts may not always provide the best value, the Government's interests are best served by formally considering such contracts when comparing alternatives.

MANAGEMENT REACTION

Management concurred in principle with our recommendations to develop and implement a framework and performance measures for the acquisition of IT support services.

Attachment

cc: Deputy Secretary
Under Secretary for Energy, Science and Environment
Administrator, National Nuclear Security Administration
Acting Chief Information Officer

INFORMATION TECHNOLOGY SUPPORT SERVICES CONTRACTS

TABLE OF CONTENTS

Overview

Introduction and Objective.....	1
Conclusions and Observations.....	2

Comprehensive IT Support Service Acquisition Framework Needed

Details of Finding.....	3
Recommendations and Comments	8

Appendices

1. Scope and Methodology.....	9
2. Related Office of Inspector General Reports.....	11

OVERVIEW

INTRODUCTION AND OBJECTIVE

Over the last several years, Congress and the Office of Management and Budget have reformed the laws and policies that govern Federal acquisition and information technology (IT) management. These reforms began with passage of the Government Performance and Results Act of 1993 (GPRA), which required strategic and annual performance plans. They were expanded through Federal Acquisition Regulations (FAR) and were amplified by the Clinger-Cohen Act of 1996 (Clinger-Cohen), which provided agencies the flexibility to use existing Federal contracts to acquire information technology more efficiently and effectively. These reforms were particularly important in light of the Department's \$1.4 billion annual information technology investment, which includes significant expenditures for scientific and research related programs such as the Accelerated Strategic Computing Initiative.

During the last three fiscal years, the Department of Energy (Department) and its contractors awarded at least \$885 million of IT support service contracts. These services typically included activities such as helpdesk and desktop support, server and network technical services, and database management and administration. To obtain information technology support services efficiently and effectively, procurement authorities are placing an increased emphasis on using existing procurement vehicles that leverage buying power by permitting aggregation of demand across the Government.

Currently, there are a number of procurement vehicles available by which Federal agencies can take advantage of consolidated buying opportunities to maximize effectiveness of IT investments. The Department's primary method, the Telecommunications Integrator Services (TELIS) contract, was negotiated to provide nationwide telecommunications and integration services for the Department, its contractors, and other Federal agencies. TELIS is an indefinite-delivery, indefinite-quantity contract where prices were established on a firm, fixed-price basis. The contract's value is \$600 million, with 20 percent open to other Federal Agencies. Other buying opportunities, such as government-wide contracts provided by the Department of Transportation, the General Services Administration and other Federal agencies were also available to the Department for acquiring IT support services.

The objective of our audit was to determine whether the Department had a comprehensive framework for the acquisition of IT support services.

**CONCLUSIONS AND
OBSERVATIONS**

The Department did not have a comprehensive framework for acquiring IT support services. Despite Chief Information Officer (CIO) sponsored initiatives, the Department was not effectively managing the acquisition of IT support services. For example, Headquarters and field elements routinely resorted to open-market procurements without formally considering the use of existing Federal contracts. When existing contracts were used, Headquarters program elements did not coordinate or consolidate requirements and issued 58 separate task orders against a single contract for the same or similar services. Despite Clinger-Cohen requirements, the Department had not developed and implemented a framework for acquiring IT support services in an efficient and cost-effective manner. Based on Departmental studies, significant savings may be possible by adopting an enterprise-wide approach to acquiring IT support services. At Headquarters, the cost for such services may be up to \$16 million more than similarly sized Federal organizations. Savings of as much as \$44 million may be possible over a three year period by adopting a Departmentwide approach.

The audit identified issues that management should consider when preparing its yearend assurance memorandum on internal controls.

Signed

Office of Inspector General

COMPREHENSIVE IT SUPPORT SERVICE ACQUISITION FRAMEWORK NEEDED

Acquisition Framework

The Department had not developed and implemented a comprehensive framework for the effective management of IT support services acquisitions. Headquarters and field elements did not consolidate requirements and routinely resorted to open-market procurements without formally considering the use of existing Federal contracts. When existing contracts were used, Headquarters program elements did not coordinate or consolidate requirements and issued 58 separate task orders against a single contract for the same or similar services. Despite the potential to substantially reduce IT support service costs, the Department did not require the use of existing Federal contracts where appropriate.

Open-Market Acquisitions at Headquarters

Despite the availability of the TELIS contract and FAR preferences for using existing Federal contracts, some Program Offices resorted to open-market acquisitions of IT support services. During the three year period under review, Headquarters used open-market vendors to acquire IT support services valued at about \$556 million. For example, five of the largest Headquarters organizations, the Offices of Civilian Radioactive Waste Management; Environment, Safety and Health; Energy Information Administration; Science; and the National Nuclear Security Administration negotiated and awarded separate open-market contracts for IT support services. While certain program officials indicated that they considered using existing contracts, they could not provide evidence of formal analysis to support decisions not to use an existing Federal contract.

Open-Market Acquisitions of Operations Offices and Contractors

Operations Offices and contractors made minimal use of existing Federal contracts such as multi-agency agreements or Federal Supply Schedule contracts when acquiring IT support services. Even though the TELIS and other existing Federal contractors were available for use, Operations Offices and contractors used open-market vendors to acquire at least \$329 million in IT support services. Use of TELIS, the Department's preferred source, was also limited and accounted for only 3.3 percent of awards made in Fiscal Years (FY) 1997 through 2000. In general, field elements could not furnish documentation or justification supporting decisions to use open-market sources. Examples of the extent of such acquisitions are detailed in the following table:

OPERATIONS OFFICES/CONTRACTORS OPEN-MARKET ACQUISITIONS

Organization	Scope of Work	Award Value (millions)
BWXT Y-12	Various IT Support Services	\$87
Sandia National Labs	IT Support Services, (6) contracts	\$44
UT Battelle	Various IT Support Services	\$28
Bechtel Jacobs Co.	Other IT Support Services	\$25
Westinghouse Savannah River Co.	Computer Lease/Services	\$25
Oak Ridge Operations Office	IT Support Services, (2) contracts	\$21
Bechtel Nevada	Various IT Support Services	\$4.5

Although a number of organizations indicated they chose open-market acquisitions because they believed that existing Federal contracts could not meet their needs, none were able to furnish documentation to support such decisions. For example, Westinghouse Savannah River Company did not formally document that it could not obtain the service portion of a leasing contract by using an existing Federal contract, and Sandia National Laboratories (Sandia) believed that its buyers intuitively knew what companies were able to supply Sandia's needs. Although a formal analysis was not prepared to support its assumption, the Oak Ridge Operations Office chose not to use an existing Federal contract because it believed that it would be difficult to re-employ IT workers displaced by a prime contract change.

Headquarters IT Support Services Acquisitions Were Not Consolidated

Even though the Department realized that economies of scale were available, program elements were not required to consolidate requirements for the same or similar services. For example, six program offices were using 33 separate task orders for establishing 33 separate computer helpdesk support functions. One program office had 11 different task orders under TELIS for 11 different helpdesk support functions. In total, Headquarters elements maintained at least 58

different task orders that provided computer helpdesk support. As documented in studies sponsored by the CIO and the Office of Defense Programs, consolidation of these tasks had the potential to reduce costs significantly.

IT Investment and Acquisition Guidance

Clinger-Cohen requires a comprehensive IT investment strategy and provides agencies with the flexibility to acquire IT services more efficiently and effectively by using existing Federal contracts. The use of Federal contracts permits aggregation of agency demand to encourage vendors to offer the best possible prices. In addition, the FAR establishes a preference for using Government-wide Acquisition Contracts or other existing contracts. Satisfying requirements through existing contracts is preferable to open-market purchases because ordering from a competitively awarded existing contract is generally more cost effective than establishing a new contract.

The Clinger-Cohen Act of 1996

Clinger-Cohen requires a comprehensive IT investment strategy and envisioned that the Department's CIO would develop policy and procedures to ensure efficient and effective IT investment and control. Consistent with that goal, the CIO was tasked with monitoring cost, schedule, and performance issues of all Departmental IT investments and reporting any problem areas to the Secretary. In addition, Clinger-Cohen specifically stated that an executive agency may enter into a contract that provided for multi-agency acquisitions of information technology. Consequently, Clinger-Cohen allowed agencies the flexibility to acquire information technology efficiently and effectively by using existing Federal contracts that permitted the aggregation of agency demand, thus encouraging vendors to offer the best possible prices.

Federal Acquisition Regulations

The FAR established a preference for using Government-wide Acquisition Contracts or other existing Federal contracts because they were generally more cost effective than establishing new contracts. The FAR also established priorities for the acquisition of supplies and services from Government supply sources. As such, the Federal Supply Schedule was the preferred source for the acquisition of IT. In addition to preferred sources, IT investment requirements could be satisfied

through existing contracts, which were preferable to open-market purchases. In fact, the FAR established a preference for using existing indefinite-delivery, indefinite-quantity contracts or other existing Federal contracts if preferred sources were not available. The FAR noted that ordering from a competitively awarded existing contract would, in nearly all cases, be more cost effective than establishing a new contract.

**Organizations Not
Required to Consolidate
or Use Existing Contracts**

Despite Clinger-Cohen requirements, the Department had not developed and implemented a comprehensive framework for acquiring IT support services in a cost effective and efficient manner. Specifically, the Department had not established requirements for Headquarters program offices to consolidate the acquisition of IT support services and for all Departmental organizations, including contractors, to formally consider the use of existing Federal contracts when acquiring IT support services. The lack of specific, focused performance measures also may have contributed to the problems observed during our audit.

Consolidation of Need Was Not Required

The Department had not established a framework for acquiring IT support services that included procedures to require Departmental and contractor elements to consolidate the acquisition of IT support services. The CIO's *FY 2000 Total Cost of Ownership* study acknowledged that management of IT support services across the Department was ineffective in that progress in developing a comprehensive acquisition framework was limited. The Department was also aware of the need to consolidate IT support service needs based upon the contents of *A Common Information Technology Infrastructure Services* pilot study completed by the Office of Defense Programs in July 2000. Contrary to relying upon the many task orders under TELIS to provide IT support services, this study recognized that opportunities existed for both cost and performance improvements by managing services, including user helpdesk support services, through a master task order.

Analysis Not Required for Open-Market Acquisitions

While the Department had taken some action to consolidate IT acquisitions by initiating the TELIS contract, the effectiveness of this CIO sponsored initiative was limited. Even though the Department recognized the potential for significant savings from aggregating demand, it did not require Departmental and contractor officials to formally determine the cost effectiveness of using TELIS or other existing Federal contracts prior to using open-market procurements. As a consequence, most Departmental IT support services were acquired on the open market and most likely detracted from the Department's ability to satisfy Clinger-Cohen requirements to maximize value in IT acquisitions.

Performance Goals

While the Department had developed high-level performance goals with respect to the overall management of IT investments, specific performance goals related to the cost effective acquisition of IT support services were not established as required by GPRA. GPRA requires Federal agencies to establish clear and measurable performance goals for all critical programs. Without specific goals, the Department lacked a basis to measure and demonstrate its performance in this highly sensitive area.

Significant Savings Opportunities Lost

Use of existing Federal procurement opportunities and the coordination and consolidation of requirements has the potential for significant savings. As indicated by the CIO sponsored *Total Cost of Ownership* study, Headquarters' IT support costs were at least \$16 million more than similarly sized Federal agencies. This CIO sponsored study revealed that most Headquarters programs substantially exceeded the \$1,597 per user benchmark for annual operations cost, some by as much as 1000 percent. The benchmark was based on data from a wide spectrum of organizations of similar size and IT environment complexity, and typically included the cost of providing helpdesk, technical, backup, recovery and operating system support.

As demonstrated by the *Information Technology Enterprise Integration Assessment*, a consolidated enterprise-wide approach to IT support services could save the Department as much as \$44 million. The Defense Programs study found there were benefits to be derived from

complex-wide integration of IT activities at various Defense Programs sites. The benefits included cost avoidance in duplication of effort and in leveraging enterprise assets. The study concluded that an enterprise-wide approach was likely to produce a benefit exceeding 5-percent of the current contract values. Assuming that IT support services expenditures do not increase significantly, adopting an enterprise-wide approach could result in savings of up to \$44 million over the next three years. (\$865m x 5 percent).

RECOMMENDATIONS

To meet the provisions of the Clinger-Cohen Act and realize significant savings available through the adoption of a comprehensive framework for the acquisition of IT support services, we recommend that the Chief Information Officer, in conjunction with Lead Program Secretarial Officers:

1. Develop, document and implement an acquisition framework for IT support services. The framework should include procedures requiring the consolidation of Headquarters IT support services, where appropriate, and should require that all contracting officers perform formal analysis to determine whether using existing Federal contracts are beneficial to the Department when acquiring IT support services.
2. Develop performance measures, consistent with GPRA and to better monitor and control costs, including a Departmentwide benchmark for IT support costs, and routinely monitor performance against the benchmark

MANAGEMENT REACTION

Management concurred in principle with the recommendations of the draft report. Certain Program Officials believed that sufficient credit was not given in instances where existing contracts were used or for efforts to consolidate requirements. Nonetheless, Management agreed to develop a plan to address the recommendations of the report.

AUDITOR COMMENTS

Management's comments are responsive to our recommendations. Management's Action plan should describe specific actions to be taken and milestones for developing and implementing a framework of the acquisition of IT support services. While we acknowledge that certain organizations were using existing Federal contracts, on the whole, Departmental elements did not routinely and formally consider the use of existing contracts when acquiring IT support services.

APPENDIX 1

SCOPE

This audit was performed between September 19, 2000 and May 31, 2001 at Departmental Headquarters, Washington, D.C. and Germantown, Maryland; Oak Ridge Operations Office, BWXT Y-12, UT Battelle, and Bechtel Jacobs in Oak Ridge, Tennessee; Savannah River Operations Office and Westinghouse Savannah River Company in Aiken, South Carolina; Albuquerque Operations Office and Sandia National Laboratory in Albuquerque, New Mexico; and the Nevada Operations Office and Bechtel Nevada in Las Vegas, Nevada. We surveyed IT support service contracts at both Headquarters and the Operations Offices. Based upon the survey results, we accumulated data on eight Program Offices, four Operations Offices, two national laboratories and four contractors. Our audit was limited to business related IT support services. The scope of our audit did not include telecommunication, video communication, Internet service providers or classified computer systems.

METHODOLOGY

To accomplish our objectives, we:

- Reviewed Federal Acquisition Regulations, Departmental Orders, procurement policies and procedures for IT support service acquisitions and IT management guides.
- Reviewed relevant reports by the Office of Inspector General and the General Accounting Office.
- Evaluated the Department's implementation of GPRA related to the establishment of performance measures for the acquisition of IT support services.
- Reviewed the basis for the Common Information Technology Infrastructure Services pilot study, identified the population of Federal IT support contracts and analyzed the total cost of ownership model in the *Headquarters FY 2000 Total Cost of Ownership* study.
- Identified helpdesk support functions and reviewed contracts, task orders and statements of work for IT support services obtained.

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- Held discussions with program officials from the Offices of the Chief Information Officer, Management and Administration, Defense Programs/National Nuclear Security Administration, Science, Energy Information Administration, Nonproliferation and National Security, Civilian Radioactive Waste Management and Environment, Safety and Health. We also held discussions with various officials and staff at the operations, laboratory and contractor offices.

The audit was conducted in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, we assessed internal controls regarding the acquisition of information technology support services. Because our review was limited, it would not have necessarily disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely upon computer-generated data to accomplish our audit objective. The Office of the CIO waived an official exit conference on August 3, 2001.

RELATED OFFICE OF INSPECTOR GENERAL REPORTS

- *Corporate and Stand-Alone Information Systems Development*, (DOE/IG-0485, September 2000). The Department has spent at least \$38 million developing duplicative information systems. Despite efforts to implement several corporate-level applications, duplicative and/or redundant computer systems exist or are under development at virtually all organizational levels within the Department.
- *Commercial Off-The-Shelf Software Acquisition Framework*, (DOE/IG-0463, March 2000). The Department had not developed and implemented software standards or effectively used Departmentwide contracts, which are key components of an acquisition framework. Furthermore, the Department could achieve savings of over \$38 million by consolidating their contracts for commercial-off-shelf desktop software.
- *In-Vitro Bioassay Services at Department of Energy Facilities*, (DOE/IG-0458, February 2000). The Department's contractors did not obtain bioassay analyses at the lowest prices available. Although discounts were available under Departmentwide subcontracts, two of the Department's contractors issued their own subcontracts for bioassay analyses with rates that were higher than the Departmentwide rates. Also, three contractors paid substantially different rates for similar or identical analyses performed by the same subcontractor.
- *The U.S. Department of Energy's Procurement and Assistance Data System*, (DOE/IG-0436, January 1999). The Procurement and Assistance Data System (PADS) did not meet user needs or comply with current generally accepted system practices. Consequently, Departmental offices developed their own systems to meet information needs. The Director, Management and Administration, should develop and implement a plan for providing procurement and financial assistance information. The planning process should include users of procurement and financial assistance information and should ensure that the plan is consistent with the Department's IT architecture.
- *Audit of Controls over the ADP Support Services Contract*, (CR-B-97-04, August 1997). The Headquarters program offices did not effectively manage the ADP support services contract by fully evaluating and controlling costs for Automated Office Systems Support and Local Area Network administration (AOSS/LAN) task assignments. This occurred because in all but one instance the task assignments were not based on detailed analysis of user requirements and related costs. None of the task assignments were benchmarked against best practices from internal or external sources. Program Offices relied on available budget and historical contractor staffing levels to determine task assignment funding.

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- *Followup Audit on the Procurement of Support Services for the Energy Information Administration*, (CR-B-97-03, May 1997). Energy Information Administration (EIA) and Procurement had made little progress toward awarding firm-fixed-price contracts. Much of EIA's contract work continued to be recurring in nature, but it had not developed statements of work that were appropriate for awarding firm-fixed-price contracts. EIA and Procurement could not agree that the requirements of a firm-fixed-price contract had been met for two contracts that were subsequently awarded as labor hour contracts. As a result, none of the 14 EIA contracts valued at \$202 million, which were active in 1996, were firm-fixed-price contracts.

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