



# Memorandum

**U.S. Department of  
Transportation**  
Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: ACTION: Report on Information Technology  
Omnibus Procurement Program, DOT  
FI-2002-089

Date: April 15, 2002

From: Kenneth M. Mead  
Inspector General

Reply to  
Attn. of: Meche: x61496

To: The Deputy Secretary

This report presents our audit results on the Information Technology Omnibus Procurement (ITOP) program managed by the Transportation Administrative Service Center (TASC). The House Committee on Appropriations requested the audit.<sup>1</sup>

ITOP is a contract program<sup>2</sup> that can be used by all Government agencies, including state and local governments, to procure information technology (IT) services. These services include developing new systems, providing programming support to existing systems, and implementing computer security. For example, ITOP was used by the Social Security Administration to develop web sites, by the Coast Guard to support its logistics information systems, and the Marine Corps to encrypt and secure on-line transactions. The Secretary of Transportation serves as the executive agent for ITOP.

In Fiscal Year (FY) 1994, Congress passed the Federal Acquisition Streamlining Act. Congress also passed the Information Technology Management Reform Act of 1996 to promote a complete overhaul of the Federal Government's methods for acquiring and managing IT resources. In response to procurement reforms, the Department of Transportation (DOT) approved ITOP in FY 1995 to provide DOT agencies with a method to consolidate IT procurements and reduce the time needed to award contracts. DOT subsequently obtained the delegation of procurement authority from the General Services Administration (GSA) which also approved use of the authority to support non-DOT (outside) agencies.

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<sup>1</sup> House Committee on Appropriations Report Number 107-108, accompanying the Fiscal Year 2002 Department of Transportation Appropriations Act.

<sup>2</sup> ITOP is one of nine Governmentwide Agency Contracts approved by the Office of Management and Budget.

The intent of ITOP was to streamline the procurement process by using prequalified providers under contract with TASC. As a result, DOT agencies could award contracts within about 2 months, compared with what traditionally took up to a year. DOT was to be the primary user.

As requested by the Committee, our audit objectives were to determine: (1) whether ITOP procurements fit the main mission of TASC, (2) whether the ITOP contract is so broad and flexible that it could be used by DOT agencies to evade departmental oversight or congressional scrutiny, and (3) why DOT agencies use this type of contract when they have contract professionals in-house who perform similar work.

Procurement reforms allowed contract professionals to use a broad range of contracting options, such as ITOP. DOT in-house contract professionals used ITOP or other Governmentwide acquisition programs when their requirements could be satisfied in less time than awarding its own contracts using traditional procurement methods. We found no duplicate contract administration between TASC and DOT agencies, and discontinued work on this objective.

During the audit, we found that TASC initiated three additional IT procurement programs available to all Government agencies. Accordingly, we expanded our audit to determine how these programs were initiated and how they fit TASC's mission.

## RESULTS

When first initiated, ITOP was for IT procurements primarily within DOT. Later, DOT allowed more use by outside agencies but asked TASC to increase use by DOT. In 1999, DOT requested and the Office of Management and Budget (OMB) designated the Secretary of Transportation as the executive agent for ITOP. While TASC has done a good job promoting ITOP, its efforts did not result in increased DOT use.

After 5 years, DOT is a secondary user of ITOP with only about \$200 million of contract awards (8 percent of the \$2.4 billion awarded to ITOP contractors).<sup>3</sup> Notwithstanding DOT's minor participation, TASC customers, including DOT agencies, have inappropriately subsidized the primary users (outside agencies) because fees paid to TASC for administering ITOP did not generate enough revenue to cover its expenses. However, DOT agencies were not aware they were subsidizing ITOP. We also found that DOT agencies were using other Governmentwide programs by awarding IT procurements of an estimated \$1.3 billion to ITOP competitors during this period of time.

Overall, we found that ITOP has not served DOT's mission as envisioned, is not financially self-sufficient, and has received little oversight from DOT management;

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<sup>3</sup> The dollar amount represents work awarded to ITOP contractors, not fees collected by TASC.

however, there was no evidence that DOT agencies used ITOP to evade oversight or scrutiny. TASC also did not get DOT approval to initiate three other Governmentwide IT procurement programs.

DOT's designation as executive agent for ITOP is expiring in June 2002.<sup>4</sup> Until steps are taken to halt the inappropriate subsidization of ITOP and to reverse DOT's secondary user status, we see no sufficient justification for DOT to request redesignation as an executive agent of a Governmentwide procurement program. DOT is facing a crucial decision on what to do about ITOP and overall TASC operations.

Last year, the Secretary wanted better service from TASC and asked the Office of Inspector General (OIG) to review TASC operations. Subsequently, Congress directed OIG to review the ITOP program. In October 2001, OIG started the ITOP review and briefed DOT senior management on the preliminary results in January 2002. Shortly thereafter, the Deputy Secretary changed the oversight of TASC by placing it under the supervision of the Assistant Secretary for Administration on February 21, 2002. As part of this action, DOT also appointed a Review Board chaired by the Assistant Secretary for Budget and Programs to review TASC operations and make recommendations for improvement and corrective actions within 90 days.

Creation of this Review Board presents an opportunity to implement the recommendations specified on page 6 of this report as one of its first actions. In this regard, the Assistant Secretary for Budget and Programs requested a 90-day extension of DOT's executive agent designation for ITOP on March 27, 2002, and in doing so, directed that TASC not undertake any new task orders in connection with existing ITOP contracts without advance approval and that TASC ensure that the full cost of these contracts is properly recovered. OMB granted DOT a 60-day extension and required DOT to discuss how OIG concerns are addressed in its redesignation request, if submitted.

Specifically, we found that:

- **ITOP is primarily serving outside agencies.** To get ITOP originally approved by GSA, DOT estimated that it could use ITOP contracts to obtain about \$900 million (82 percent) of IT procurements over 7 years for itself and \$200 million (18 percent) for outside agencies, thereby consolidating its buying power and shortening procurement time to save money. After 5 years, DOT's use totaled about \$200 million (about 8 percent), while outside agencies totaled \$2.2 billion (92 percent). During the same period, DOT agencies awarded an

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<sup>4</sup> On March 28, 2002, OMB extended DOT's executive agent designation for ITOP to June 3, 2002.

estimated \$1.3 billion of IT procurements through other Governmentwide programs.

- **TASC customers are subsidizing outside agencies.** OMB requires TASC to charge fees that will cover all ITOP expenses, both direct and indirect. Although the fee structure is comparable with other Governmentwide IT procurement programs, we found that these fees did not generate sufficient revenue to cover ITOP's total expenses.

For the 5 years ended September 30, 2001, TASC reported a cumulative loss of \$2.1 million on ITOP, and projects a \$1.6 million loss for FY 2002. These losses must be covered with other TASC revenue sources. Consequently, other TASC customers, including DOT agencies, are inappropriately subsidizing outside agencies.

OMB requires executive agents to disclose revenue and expenses for operating Governmentwide acquisition programs in biannual status reports. TASC disclosed ITOP revenue but not the expenses, which effectively kept OMB from knowing that TASC was losing money.

Although ITOP has lost money since its inception, TASC is developing a marketing plan to further promote its use by outside agencies. The only sure thing about this initiative is that TASC will incur up-front expenses, resulting in an estimated loss of \$1.6 million in FY 2002, with no assurance that its strategy will generate the revenue needed for ITOP to break even. If this initiative fails, TASC customers, including DOT agencies, will have to cover these additional expenses, while outside agencies (ITOP primary users) will bear no such risks.

- **ITOP received little oversight from DOT management.** In 1998, when DOT approved expansion of ITOP contract authority and obtained OMB's approval for an additional \$10 billion in contract authority, the former Acting Chief Information Officer issued requirements to TASC for taking actions to increase DOT use. For example, TASC was directed to specifically survey ITOP users' satisfaction. TASC did not conduct such a survey.

We found no departmental oversight to ensure adequate competition before awarding work. While agencies select only from prequalified contractors, this should not prevent competition among these contractors. About 30 percent of the ITOP task order amounts we reviewed were awarded based on sole-source or single bids. Another 40 percent were awarded to incumbents based on best values and not to the lowest bidder.

- **TASC did not obtain DOT approval to initiate other Governmentwide procurement programs.** TASC is primarily financed by an administrative

working capital fund. Its enabling legislation authorized use of the fund to finance:

Expenses of operating and maintaining common administrative services the Secretary of Transportation decides are desirable for the efficiency and economy of the Department.

TASC did not seek DOT or OMB approval to initiate these Governmentwide IT procurement programs, to include lining up more than 400 supporting contractors. These programs were developed and managed by the same staff responsible for the Transportation Computer Center (TCC). In FY 2000, Congress ordered TCC to shut down because it was not cost-effective.

TASC claimed these programs primarily were used to support its work on DOT systems, such as maintaining DOT's telecommunications network systems. When asked why ITOP could not be used, TASC stated that it could get better prices from "their" contractors.

We found that TASC has awarded about \$26 million of work under these programs, of which \$17 million (65 percent) was for outside agencies, including a state transportation agency, through interagency agreements. These interagency agreement services were inconsistent with the principles of the Economy Act,<sup>5</sup> which requires that the servicing agency be fully reimbursed for incurred costs. TASC records showed a loss of about \$1.1 million on outside agencies' contracts for FYs 2000 and 2001.

In FY 2000, concerned with the proliferation of interagency contracts, OMB asked the Federal Information Technology Resources Board (Board) to assess use of interagency contracts. The Board recommended that agencies ensure interagency contracts are in their best business interests and reported<sup>6</sup> that:

Although agencies that create interagency contract vehicles appear to be doing so to meet their own needs, it is not always clear that these needs are integral to the agency's strategic mission.

ITOP and TASC's other IT procurement programs are losing money and are primarily serving outside agencies. As long as this is the case, the IT procurement programs currently operated by TASC are not integral to DOT's strategic mission, as pointed out by the Board.

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<sup>5</sup> The Economy Act applies when more specific statutory authority does not exist for interagency agreements, per Federal Acquisition Regulation Part 17.500 (b).

<sup>6</sup> Assessment of Key Interagency IT Procurement Vehicles, September 2000.

In the draft report, we recommended a 2-phased approach to address short- and long-term solutions. For short-term solutions, we recommended that the Deputy Secretary:

- Do not request redesignation from OMB as the executive agent for ITOP until DOT is prepared to use ITOP substantially to support its mission and ITOP fees cover all associated expenses,
- Impose a moratorium on outside agencies' use of ITOP by allowing TASC to serve only existing task orders including execution of associated optional years,
- Direct TASC to suspend the ITOP expansion and stop subsidizing customers by charging adequate fees to cover all expenses, and
- Direct DOT's Chief Information Officer and Senior Procurement Executive to increase departmental oversight of ITOP operations.

For long-term solutions, we recommended that the Deputy Secretary:

- Direct the TASC Review Board to work with DOT agencies in assessing the feasibility of using ITOP, in lieu of other Governmentwide programs, to substantially support DOT procurement needs, and
- Seek the executive agent redesignation for ITOP only if (a) it is deemed feasible to use ITOP to substantially support DOT procurement needs, (b) steps are taken to reverse DOT's secondary user status, and (c) inappropriate subsidization of ITOP has stopped.

For other Governmentwide IT procurement programs managed by TASC, we recommended that the Deputy Secretary direct TASC to stop offering interagency agreement services to outside agencies unless explicitly authorized by the Deputy Secretary or his designee. If authorized, TASC should provide services consistent with the principles of the Economy Act.

In response to our draft report, DOT stated that it could not provide a detailed response to our recommendations at this time because the TASC Review Board's deliberations are still underway, and that DOT will provide a detailed response to the recommendations once the TASC Review Board has completed its efforts. DOT requested a temporary extension of the executive agent designation for ITOP, which was granted by OMB to June 3, 2002.

## **BACKGROUND**

In FY 1995, GSA authorized DOT to manage an IT acquisition contract with a \$1.1 billion contract authority over 7 years (known as the Transportation Omnibus Procurement System and later renamed ITOP I). Under ITOP I, 20 contractors were

prequalified to perform system engineering, system operations and management, and information system security support services.

TASC was created in DOT during FY 1996 to provide common administrative services to DOT and other Federal agencies. Established as a fee-for-service organization, TASC does not receive direct appropriations. Instead, TASC bills internal and external clients for services provided. The responsibility for managing ITOP I was transferred to TASC.

Congress passed the Information Technology Management Reform Act of 1996 (Clinger-Cohen Act), which gave OMB authority to designate agencies as executive agents for Governmentwide procurement contracts. In 1999, OMB designated the Secretary of Transportation as the executive agent for ITOP II with a \$10 billion contract authority over 6 years because ITOP I was approaching its contract authority limit. Under ITOP II, 36 contractors were prequalified.

## **SCOPE AND METHODOLOGY**

We reviewed key IT procurement documents, including authorization and appropriation documents; relevant DOT Orders, acquisition laws and regulations; TASC annual reports; reports to customers; documents regarding the approval and oversight of programs; and task orders issued by DOT and outside agencies. We conducted interviews with key personnel responsible for the implementation and oversight of the IT procurement programs.

Because ITOP I had already reached its contract limit, our review focused on task orders DOT and outside agencies issued under ITOP II. We reviewed 15 task orders, totaling \$573 million, for proper documentation, competition, posting of the Requests for Proposal, numbers of respondents, incumbent status, and contract management by TASC. We also reviewed TASC financial reports to determine whether TASC is collecting enough revenue to cover ITOP total expenses.

For the other IT procurement programs TASC initiated, we reviewed authorizing legislation and interagency agreements, and consulted with the DOT General Counsel Office and the General Accounting Office (GAO). To determine whether TASC is fully recovering its total expenses from outside agencies under these programs, we obtained financial data recorded in the DOT accounting system.

We performed our audit from September 2001 through February 2002 at DOT Headquarters in Washington, D.C. The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

## FINDINGS AND RECOMMENDATIONS

### A. ITOP has not Fulfilled DOT's Goal and TASC Customers are Subsidizing Other Government Agencies

In 1995, DOT proposed ITOP with a vision that, with this streamlined procurement program, DOT could consolidate hundreds of millions of dollars of in-house IT procurements. Based on its estimate, DOT obtained the delegation of procurement authority from GSA to serve both DOT (primary user) and outside agencies (secondary users).

The Clinger-Cohen Act of 1996 authorized OMB to designate agency heads as executive agents for Governmentwide acquisition programs. OMB subsequently designated the Secretary of Transportation as the executive agent for ITOP. Later, DOT allowed more use by outside agencies due to demand. However, DOT specifically asked TASC to take steps to increase DOT use to keep ITOP in line with DOT missions.

While TASC has done a good job promoting the use of ITOP, its efforts did not result in increased DOT use. After 5 years, DOT is the secondary, not primary, user of ITOP with about 8 percent of the total contract amounts (totaling \$2.4 billion). During the same period, DOT awarded an estimated \$1.3 billion of IT procurements through other Governmentwide programs. Notwithstanding DOT's minor participation, TASC customers, including DOT agencies, have subsidized the primary users (outside agencies) because ITOP fees did not generate enough revenue to cover its total expenses.

#### *DOT Use of ITOP Services is Declining*

DOT has not achieved the original goal of consolidating IT procurements. DOT estimated that it could use ITOP contracts to obtain about \$900 million (82 percent) of IT procurements over 7 years for itself and \$200 million (18 percent) for outside agencies, thereby consolidating its buying power and shortening procurement time to save money. We found that DOT did not come close to its initial estimate. After 5 years, DOT agencies' use totaled about \$200 million (about 8 percent), while outside agencies' use totaled \$2.2 billion (92 percent).

After ITOP was established, DOT agencies continued using other Governmentwide acquisition contracts offered by ITOP competitors. To assess the amount of DOT procurements through other IT procurement programs, we contacted executive agent offices for all other Governmentwide acquisition contracts and researched the Federal Procurement Data System and FAA's contract management information system (ACQUIRE). We found that DOT has spent an estimated \$1.3 billion on IT services



procurements<sup>7</sup> through other Governmentwide programs between FY 1997 and FY 2001 (see Table 1).

**Table 1**  
**DOT's Estimated Use of Other Governmentwide Procurement Programs**  
**(FY 1997 through FY 2001)**

Servicing Agencies	Estimated DOT Use
General Services Administration	\$ 1,200 million <sup>1</sup>
National Aeronautics and Space Administration	94 million <sup>2</sup>
National Institutes of Health	7 million <sup>2</sup>
<b>Total</b>	<b>\$1,301 million</b>

<sup>1</sup> We estimated that FAA awarded about \$1.1 billion and other DOT agencies awarded about \$100 million of IT services procurements through various GSA programs, including the Federal Supply Schedule.

<sup>2</sup> Extrapolated based on DOT's 4-year use between FY 1997 to FY 2000.

DOT's current policy for using non-TASC sources requires DOT agencies to demonstrate that other sources could provide more cost-benefits or higher quality. However, the policy is not being enforced. Meanwhile, TASC did not develop useful information to improve DOT's use of ITOP services. For example, DOT's former Acting Chief Information Officer directed TASC to survey ITOP users' satisfaction. TASC did not perform such a survey.

### *DOT is Subsidizing Other Government Agencies*

The ITOP program is a fee-for-service program. Fees should be limited to recover total expenses.<sup>8</sup> In the January 1999 letter from OMB to DOT to redesignate the Secretary of Transportation as executive agent, OMB stated that the executive agent was to recover the fully allocated costs, including both direct and indirect costs.

Although the ITOP fee structure is comparable with other Governmentwide IT procurement programs, we found that these fees did not generate sufficient revenue to cover ITOP's total expenses. For the 5 years ended September 30, 2001, TASC reported a cumulative loss of \$2.1 million, and projects a \$1.6 million loss for

<sup>7</sup> All DOT agencies, except FAA, provide input to the Federal Procurement Data System. We researched DOT's submission to the Federal Procurement Data System and FAA's contract management information system (ACQUIRE). Since ITOP is a procurement program for IT services, we excluded DOT's IT hardware procurements.

<sup>8</sup> A requirement contained in the Multi-agency/Governmentwide Agency Contract Program Managers' Compact, dated September 1997.

FY 2002. Table 2 shows the actual and projected revenue and expenses associated with the fees.<sup>9</sup>

**Table 2**  
**ITOP Revenue and Expenses**  
**FY 1997 through FY 2003**

<b>Fiscal Year</b>	<b>Revenue</b>	<b>Expenses</b>	<b>Net Gain (Loss)</b>
1997 <sup>1</sup>	\$ 378,000	\$ 278,000	\$ 100,000
1998 <sup>1</sup>	1,985,000	2,120,000	(135,000)
1999 <sup>1</sup>	1,807,000	2,659,000	(852,000)
2000 <sup>1</sup>	3,101,000	3,400,000	(299,000)
2001 <sup>2</sup>	3,928,000	4,887,000	(959,000)
<b>Total</b>	<b>\$11,199,000</b>	<b>\$13,344,000</b>	<b>(\$2,145,000)</b>
2002 <sup>2</sup>	\$ 5,529,000	\$ 7,113,000	(\$1,584,000)
2003 <sup>2</sup>	\$ 8,172,000	\$ 7,349,000	\$ 823,000

Source: <sup>1</sup>TASC Business Support Group.  
<sup>2</sup>ITOP Break-even Strategy Document.

TASC losses on ITOP must be covered with other TASC revenue sources. Consequently, other TASC customers, including DOT agencies, are inappropriately subsidizing outside agencies' use of ITOP. OMB requires executive agents to disclose revenue and expenses for operating Governmentwide acquisition programs in biannual status reports. TASC disclosed ITOP revenue but not the expenses, which effectively kept OMB from knowing that TASC was losing money.

Although ITOP has lost \$2.1 million since its inception, TASC is developing a marketing plan to further promote its use by outside agencies. TASC projected a 45-percent increase of expenses in FY 2002 (from \$4.9 million to \$7.1 million) because of the planned expansion of its marketing program. ITOP has hired three division directors and three regional field representatives for business development and is looking to hire the fourth representative. With this aggressive marketing effort, TASC hopes to significantly increase sales (from \$5.5 million to \$8.2 million) in FY 2003.

<sup>9</sup> OIG plans to review how TASC calculates and allocates its operating costs associated with various services during the upcoming financial audit.

The only sure thing about this initiative is that TASC will incur additional up-front expenses, resulting in an estimated loss of \$1.6 million in FY 2002, with no assurance that its strategy will generate the revenue needed for ITOP to break even. If this initiative fails, TASC customers, including DOT agencies, will have to cover these additional expenses, while outside agencies (ITOP's primary users) will bear no such risks.

ITOP is losing money and primarily is serving outside agencies. As long as this is the case, this IT procurement program operated by TASC is not integral to DOT's strategic mission. In FY 2000, concerned with the proliferation of interagency contracts, OMB asked the Federal Information Technology Resources Board (Board) to assess the use of interagency contracts. The Board reported that:

Although agencies that create interagency contract vehicles appear to be doing so to meet their own needs, it is not always clear that these needs are integral to the agency's strategic mission.

To address this situation, the Board recommended that agency heads, chief information officers, chief financial officers, and procurement executives ensure that the creation and operation of interagency contracts are in the agencies' best business interests.

DOT's executive agent designation for ITOP is expiring in June 2002. If DOT intends to request an extension of the designation, it must submit the request to the OMB Director. On February 21, 2002, the Deputy Secretary appointed a Review Board composed of selected DOT senior officials to review TASC operations and make recommendations for improvement within 90 days.

## **RECOMMENDATIONS**

- A. We recommend a 2-phased approach to address short- and long-term solutions for ITOP. For the short-term, we recommend that the Deputy Secretary:
  1. Do not request redesignation from OMB as the executive agent for ITOP until DOT is prepared to use ITOP substantially to support its mission and ITOP fees cover all associated expenses.
  2. Impose a moratorium on outside agencies' use of ITOP by allowing TASC to serve only existing task orders including execution of associated optional years.
  3. Direct TASC to suspend the ITOP expansion and stop subsidizing customers by charging adequate fees to cover all expenses.

For the long-term, we recommend that the Deputy Secretary:

4. Direct the TASC Review Board to work with DOT agencies in assessing the feasibility of using ITOP, in lieu of other Governmentwide programs, to substantially support DOT procurement needs.
5. Seek the executive agent redesignation for ITOP only if (a) it is deemed feasible to use ITOP to substantially support DOT procurement needs, (b) steps are taken to reverse DOT's secondary user status, and (c) inappropriate subsidization of ITOP has stopped.

## **MANAGEMENT RESPONSE**

A draft of this report was provided to the Deputy Secretary on March 8, 2002. On April 3, 2002, DOT notified OIG that it could not provide a detailed response to audit recommendations at this time because the TASC Review Board's deliberations are still underway (see Appendix). DOT will provide a detailed response to the recommendations once the TASC Review Board has completed its efforts.

In the meantime, DOT has requested a temporary extension of the executive agent designation for ITOP, which was granted by OMB. During the extension period, the TASC Review Board has directed that no task orders be undertaken in connection with existing ITOP contracts without its advance approval. The Review Board and TASC will ensure that the full cost of these contracts is properly recovered.

## **B. ITOP Received Little Oversight from DOT Management**

The Clinger-Cohen Act of 1996 specified that the agency's Chief Information Officer is responsible for monitoring and evaluating the performance of agency's IT programs and advising the head of the agency regarding whether to continue, modify, or terminate a program or project. The Act also requires agencies to report any major IT acquisition program that has significantly deviated from established cost, performance, or schedule goals.

DOT exempted ITOP from the major acquisition review by the Deputy Secretary because no DOT project was anticipated to exceed the \$50 million threshold. In 1998, the DOT Acting Chief Information Officer, upon approving the request to expand ITOP contract authority, issued specific requirements for improving ITOP operations. We found that TASC efforts did not result in increased DOT use and there was no departmental oversight to ensure adequate competition before awarding ITOP work.

### *Increasing DOT Use of ITOP Services*

In 1998, DOT's Acting Chief Information Officer was concerned that DOT agencies were not using ITOP as predicted and asked TASC to propose steps to increase DOT use, including a survey of ITOP users' satisfaction, and measure the outcome.

TASC reported that its efforts to increase DOT use included contacting DOT agencies to acquaint them with the availability of ITOP, conducting a comparison of DOT prior and current usage, and developing goals in support of the TASC Strategic Plan. A survey on ITOP users' satisfaction was not conducted because TASC maintained that its survey on customer satisfaction for overall TASC services would be an adequate substitute. TASC efforts did not result in increased DOT use.

### *Increasing Competition Among Prequalified Contractors*

Governmentwide acquisition contracts allow only prequalified contractors to compete for Government contracts. Prequalified contractors are required to compete among themselves so the Government gets the best price or value. In 1998, GAO reported that Government agencies avoided competition on Governmentwide contracts, including ITOP, with excessive use of the directed task order privilege (sole-source).<sup>10</sup> While GAO commended ITOP for promoting small business participation, it reported that 64 and 38 percent of ITOP orders were sole-source during FY 1997 and the first half of FY 1998, respectively. Subsequently, OMB directed all executive agents to encourage competition.

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<sup>10</sup> Report on Acquisition Reform—Multiple-award Contracting at Six Federal Organizations, GAO/NSAID-98-215, September 1998.

We found that ITOP is not obtaining adequate competition. A total of \$1.2 billion of task orders have been awarded under ITOP II. We reviewed 15 task orders,<sup>11</sup> totaling \$573 million, and found that 10 task orders, valued at \$398 million (70 percent of dollar value), were awarded to incumbent contractors.

Although these task orders were announced to all prequalified contractors, they resulted in either no competing respondents (sole-source or single bid) or award to incumbents with higher bids, which are characterized by contracting officers as "best values," as shown in Table 3.

**Table 3**  
**Task Orders Awarded to Incumbents**

<b><u>Basis of Award</u></b>	<b><u>Amounts</u></b>
Sole source (two task orders)	\$ 2 million
Single bid (four task orders)	169 million
Best value (four task orders)	227 million
<b>Total</b>	<b>\$398 million</b>

The Clinger-Cohen Act places the responsibility for oversight of IT procurements on the agency's Chief Information Officer. As evidenced from our findings, increased oversight of ITOP operations by the DOT Chief Information Officer and the DOT Senior Procurement Executive is needed to ensure appropriate competition for the Government's business.

## **RECOMMENDATION**

- B. We recommend that the Deputy Secretary direct the DOT Chief Information Officer and DOT Senior Procurement Executive to increase management oversight to ensure that ITOP operations do not deviate from the primary goal of serving DOT agencies and customer orders are receiving increased competition from ITOP contractors.

## **MANAGEMENT RESPONSE**

DOT will provide a detailed response to the recommendation once the TASC Review Board has completed its efforts.

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<sup>11</sup> These task orders were awarded by either DOT agencies or TASC on behalf of outside agencies.

### **C. TASC did not Obtain DOT Approval to Initiate Other Governmentwide IT Procurement Programs**

TASC initiated three other Governmentwide IT procurement programs--Millennium Solutions Center (MSC), Value Added Niche Information Technology Services (VANITS), and Specialized Technical and Technology User Services (STATUS)—in FY 1999, FY 2000, and FY 2001, respectively. These procurement programs were developed and managed by the same staff responsible for the Transportation Computer Center (TCC). In FY 2000, Congress ordered TCC to shut down because it was not cost-effective.

TASC did not seek DOT or OMB approval to initiate these procurement programs. Also, TASC provided interagency agreement services to outside agencies that were inconsistent with the principles of the Economy Act because it is not being reimbursed for all incurred costs.

#### *Lack of Departmental Approval*

TASC primarily is financed by an administrative working capital fund. Its enabling legislation authorized use of the fund to finance:

Expenses of operating and maintaining common administrative services the Secretary of Transportation decides are desirable for the efficiency and economy of the Department.

Contrary to ITOP, TASC did not seek DOT or OMB approval to initiate these procurement programs, to include lining up more than 400 contractors<sup>12</sup> to support these programs. In response to an inquiry from DOT's former Chief Information Officer, dated June 8, 2000, TASC stated that these other procurement programs were not interagency contracts. Instead, they were developed to enable TASC to provide IT services, which TASC stated was within its authorized mission.

We asked TASC for justification to have more than 400 contractors lined up to satisfy DOT's in-house needs. TASC referred us to the business cases prepared for STATUS and VANITS. In the business cases, TASC stated, ". . . DOT customer communities spend several hundred million dollars annually on acquiring and using the types of specialized services [the program] would provide."

In our opinion, TASC justified having more than 400 contractors lined up to support DOT's needs under the assumption that DOT users would switch from existing acquisitions to programs proposed by TASC. However, we found that TASC did not

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<sup>12</sup> Like ITOP, these contracts were structured as modular contracts (indefinite delivery/indefinite quantity) under which TASC can issue multiple task orders to each contract holder.

conduct a survey or study to support this assumption. We asked TASC why ITOP could not be used to support DOT needs. TASC stated that it could get better prices from "their" contractors.

### *Inconsistency with the Economy Act*

TASC claimed that these programs primarily were used to support TASC's work on DOT systems, such as maintaining DOT e-mail systems, telecommunications networks, and web services. We found that as of February 4, 2002, TASC had awarded about \$26 million of contract work, of which \$17 million (65 percent) was for outside agencies, including a state transportation agency. Unlike ITOP, outside agencies cannot directly use these contractor services. Instead, outside agencies have to contract the work to TASC through interagency agreements. TASC, in turn, uses these contractors to deliver services to outside agencies.

In other words, under these programs, TASC provides services similar to those the Volpe National Transportation Systems Center (Center) provides to outside agencies. While the Center also is financed by a working capital fund, its enabling legislation specifically authorized use of the fund to finance interagency activities. The legislation stated:

The activities of the Center, including research, development, testing, evaluation, analysis, and related activities the Secretary of Transportation approves, for the Department, other agencies, State and local governments, other public authorities, private organizations, and foreign countries.

The Center provides interagency agreement services in accordance with the Economy Act, which requires that servicing agencies be fully reimbursed for actual costs incurred. The Comptroller General has stated that the purpose of the actual cost reimbursement is to avoid unauthorized augmentation of an agency's appropriation at the expense of another.

TASC provided interagency agreement services that were inconsistent with the principles of the Economy Act because it is not being reimbursed for almost \$1.1 million of costs incurred in the last 2 years on outside agency contracts. TASC reported \$278,000 of operating losses in FY 2000. As of January 31, 2002, TASC continues to make adjustments to FY 2001 operating results. However, according to transactions recorded in the DOT accounting system, TASC had losses of \$844,000 for FY 2001 for serving outside agencies under MSC, VANITS, and STATUS programs (see Table 4).



**Table 4**  
**Operating Losses**  
**For Interagency Agreements to Non-DOT Agencies**

<b>Programs</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>Total</b>
MSC	(\$ 278,000)	\$ 94,000	(\$ 184,000)
VANITS	N/A	(778,000)	(778,000)
STATUS	N/A	(160,000)	(160,000)
<b>Total</b>	<b>(\$278,000)<sup>1</sup></b>	<b>(\$844,000)<sup>2</sup></b>	<b>(\$1,122,000)</b>

Source: <sup>1</sup>Information provided by TASC.

<sup>2</sup>Information recorded in DOT accounting system.

Regardless of whether or not these programs were properly approved, TASC is losing money on serving primarily outside agencies on these IT procurement programs. OMB also is making inquiry of these programs. On January 29, 2002, OMB asked DOT to explain the relationship, and possible overlaps, between ITOP and these additional procurement programs as well as under what authority outside customers may use these programs.

## **RECOMMENDATIONS**

C. We recommend that the Deputy Secretary direct the Assistant Secretary for Administration to:

1. Have TASC stop offering interagency agreement services to outside agencies unless explicitly authorized by the Deputy Secretary or his designee.
2. Ensure TASC provides interagency agreement services, if authorized, consistent with the principles of the Economy Act.

## **MANAGEMENT RESPONSE**

DOT will provide a detailed response to the recommendations once the TASC Review Board has completed its efforts.

## **ACTION REQUIRED**

In accordance with DOT Order 8000.1C, we would appreciate receiving DOT comments upon completion of the TASC Review Board's efforts. If you concur with our findings and recommendations, please state specific actions taken or planned for each recommendation and provide target dates for completion. If you do not concur,

please provide your rationale. You may provide alternative courses of action that you believe would resolve the issues presented in this report.

We appreciate the courtesies and cooperation of DOT and TASC representatives. If you have questions concerning this report, please call me at (202) 366-1959, or my Deputy, Todd J. Zinser, at (202) 366-6767.

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## EXHIBIT. MAJOR CONTRIBUTORS TO THIS REPORT

THE FOLLOWING INDIVIDUALS CONTRIBUTED TO THIS REPORT.

<u>Name</u>	<u>Title</u>
Rebecca Leng	Program Director
Michael Marshlick	Project Manager
Linda Toms	Senior Auditor
Gary Klauber	Computer Scientist
Cynthia Tims	Information Technology Specialist
Tom Lehrich	Associate Counsel

## APPENDIX. MANAGEMENT COMMENTS



# Memorandum

**U.S. Department of  
Transportation**  
Office of the Secretary  
of Transportation

Subject: **Action:** Response to Draft Report, "Audit of the  
Information Technology Omnibus Procurement (ITOP)  
Program"

Date: April 3, 2002

From: Melissa J. Allen  
Assistant Secretary for Administration

Reply to  
Attn. of:

To: Ken Mead  
Inspector General

The Office of Inspector General (OIG) draft report raises a number of questions regarding the Transportation Administrative Service Center's (TASC) implementation of the ITOP program. This draft report arrived at a critical juncture for both the ITOP program and TASC. The ITOP executive agent designation from OMB, which allows the program to operate as a government-wide contract, was set to expire on April 1. Also, continuing the work begun last year to improve OST operations, a Review Board was established to examine all TASC operations and provide a series of recommendations on how to best structure TASC to ensure full benefit for the Department and achieve management efficiencies. Evaluating the ITOP program is a key element of the Review Board's efforts.

The Department recently requested, and was granted by OMB, a temporary extension of ITOP's executive agent status. During this period, TASC was directed that no new task orders be undertaken in connection with existing ITOP contracts without advance approval of the TASC Review Board. In addition, the Review Board and TASC will ensure that the full cost of these contracts is properly recovered.

Since the Review Board's deliberations are still underway, it is not possible at this time to provide a detailed response to each of the draft report's recommendations. The Department will provide a detailed response to the recommendations once the Board has completed its efforts. We appreciate the OIG's efforts with regard to the ITOP program, and will continue to work closely with the OIG on this important issue. Please contact my office on 366-2332 with any questions.