



Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Report on Shutdown of the
Transportation Computer Center, TASC
FI-2003-010

Date: January 9, 2003

From: Alexis M. Stefani 
Principal Assistant Inspector General
for Auditing and Evaluation

Reply to
Attn. of: Meche: x61496

To: Deputy Secretary
Assistant Secretary for Budget and Programs
and Chairwoman, TASC Review Board
Assistant Secretary for Administration

This report presents our audit results on a Hotline complaint alleging that (1) the Transportation Administrative Service Center (TASC) continued operating the Transportation Computer Center (TCC) after Congress recommended that it be shut down and (2) TASC was using unlicensed software on the TCC computers. Our audit objective was to determine whether these allegations were valid. Our scope and methodology are discussed in Exhibit A.

INTRODUCTION

In 1974, the Department of Transportation (DOT) began using TCC to provide computer services to some DOT Operating Administrations. Major users included the Federal Highway Administration, Federal Transit Administration, Bureau of Transportation Statistics, and the U.S. Coast Guard.

During 1997, we reviewed TASC operations and found that TCC was not operated cost-effectively. We found that TCC did not have enough business to operate at the level that the Office of Management and Budget considered cost-effective. Therefore, we recommended that TCC operations be discontinued.¹ In July 1998, the House of Representatives, Committee on Appropriations also recommended

¹ Report on the Transportation Administrative Service Center, Report Number MA-1998-073, February 5, 1998.

that TCC be eliminated and that DOT Operating Administrations be permitted to procure similar services from other Governmental or private providers.

Our followup report in March 1999² found that while some progress was made, TCC's efficiency remained substantially below other comparable centers and TCC's billing rates remained two to six times higher than another Government computer data center. In March 2000, TASC advised DOT customers that it would shut down TCC. By July 2000, all DOT customers had moved their application systems from TCC to other processing sites.

In February 2002, DOT appointed a TASC Review Board, chaired by the Assistant Secretary for Budget and Programs. The Review Board was to review TASC operations and make recommendations for improvement.

RESULTS

After all DOT customers moved their application systems from TCC, we found that TASC spent about \$1.4 million on the TCC computer software and hardware. However, TASC had no customers for the computer services. Specifically,

- In October and December 2000, TASC spent about \$900,000 to purchase two computers that had been the principal processing units in TCC. Before the shutdown of TCC, these computers were leased to TASC, and according to the vendor, they could have been returned in July 2000 with no penalty.
- In conjunction with purchasing the computers, TASC spent \$524,000 to extend licenses for software products.

Although TCC was shut down, the TASC Director stated that TASC purchased the computers and extended the software licenses because TASC had already spent funds for leasing the computers and planned to use this equipment for new business opportunities.³ However, TASC could not provide a DOT-approved plan for use of these computers after TCC was shut down.

TASC is a fee-for-service organization that does not receive direct appropriations from Congress. TASC finances its expenses using DOT's administrative working capital fund, then bills internal and external clients for services provided. According to TASC, it has not conducted any customer business on or generated

² Report on TASC Computer Center, Report Number MA-1999-062, March 3, 1999.

³ Between January and March 2001, TASC tested the Linux operating system on the TCC computer for possible business applications. In 2002, TASC also approached the Transportation Security Administration to explore its possible use of computer services.

any revenue from the computers since TCC was shut down in July 2000. We found that TASC billed the \$1.4 million to the existing TCC customers as part of TCC closeout costs.

Unable to attract new customers for its computer services, TASC informed us that it planned to sell the computers. However, TASC provided no evidence to support this claim. Federal regulations provide that excess Government equipment first be made available for donation to a Federal, state, or local Government agency. If there are no requests for donations, the equipment then can be sold competitively by DOT or through the General Services Administration (GSA). We found no evidence that TASC had contacted GSA.

Because of rapid changes in technology, sale of these computers today would likely yield a low dollar value return. Specifically, the vendor who sold the computers to TASC for about \$900,000 stated that it no longer markets this equipment. According to the vendor, the current value of one computer was about \$61,000, and there was no market for the other.

Notwithstanding congressional direction, DOT's announcement that TCC was shut down, and with no paying customers for computer services, TASC unilaterally decided to buy this computer equipment rather than return the leased equipment to the vendor after all DOT customers moved from TCC. This decision resulted in a waste of \$1.4 million of DOT funds.

Based on our findings, TASC was ordered to dispose of the TCC computers, which it did by donating the equipment to the Federal Bureau of Investigation. In commenting on this report, the Deputy Secretary stated that the decision to buy the leased computers, which proved to have little or no resale value, rather than return them to the vendor represented an inappropriate decision reflecting extremely poor business judgment by TASC and that it was inappropriate for TASC to pass the charges to DOT customers as part of TCC shutdown costs.

The Deputy Secretary also stated that TASC's decision to purchase the TCC computers and software was illustrative of broader structural problems regarding the TASC business model and organizational structure that lacked clarity and focus on DOT core competencies, which is why the Secretary ordered a fundamental restructuring of TASC.

The Secretary decided to abolish TASC as a separate entity. DOT is conducting a thorough review of all ongoing TASC business, assessing internal administrative requirements, and implementing reforms that will require the use of more business-like principles, the establishment of a rigorous cost accounting system, and obtaining independent financial audits annually. The Deputy Secretary's comments are summarized on page 4 and the complete text is in the Appendix.

RECOMMENDATIONS

We recommend that the Deputy Secretary of Transportation require the Assistant Secretary for Administration, in coordination and agreement with the TASC Review Board, to:

1. Direct TASC to dispose of the TCC computers and associated equipment.
2. Determine who should be held accountable for purchasing the computers and take administrative action, if appropriate.
3. Notify the House Appropriations Committee of TASC's actions after the shutdown of TCC and actions DOT plans to take concerning the circumstances discussed in this report.

MANAGEMENT COMMENTS

A draft of this report was provided to the Deputy Secretary, Assistant Secretary for Budget and Programs, and the Assistant Secretary for Administration on August 27, 2002. The Deputy Secretary responded on December 20, 2002, and provided the following comments.

The decision to buy leased computers rather than return them to the vendor with no penalty represented an inappropriate decision reflecting extremely poor business judgment by TASC. DOT agrees that it was inappropriate for TASC to pass the charges to DOT customers as part of TCC shutdown costs, particularly since the purchase was intended to support business opportunities with agencies outside DOT. Regarding the report's recommendation to dispose of the computers and associated equipment, TASC donated the computers and equipment to the Federal Bureau of Investigation in October 2002.

TASC's decision to purchase the TCC computers and software illustrate broader structural problems regarding the business model and organizational structure under which TASC was operating. At that time, TASC's mission lacked clarity and focus on DOT core competencies. TASC's ambition to operate as a service provider for other agencies and thus lower the cost of internal DOT administrative services never materialized.

Based on recommendations of the Review Board, the Secretary's own observations of TASC operations, and a series of audit reports by the Office of Inspector General, the Secretary concluded that more fundamental structure and management changes were needed in TASC.

The Secretary decided to abolish TASC as a separate entity within DOT and transferred the majority of its employees to the Office of the Assistant Secretary for Administration, with a smaller number of employees now reporting to the Department's Chief Information Officer. The position of Director of TASC has been abolished. DOT is conducting a thorough review of all ongoing TASC business and assessing internal administrative support requirements.

The Department's General Counsel reviewed whether the decision to purchase the TCC computers violated statutory restrictions, Department rules or called for disciplinary actions of any sort. After an extensive review, the General Counsel found no such violations and has not recommended disciplinary action for any individual.

DOT has notified the appropriate Congressional committees regarding the fundamental reforms that the Secretary has implemented.

The complete text of the Deputy Secretary's comments is in the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

Actions taken and planned by DOT are reasonable. These issues are resolved, subject to the followup requirements in DOT Order 8000.1C.

We appreciate the courtesies and cooperation of DOT and TASC representatives. If you have questions concerning this report, please call me at (202) 366-1992 or John Meche at (202) 366-1496.

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EXHIBIT A. SCOPE AND METHODOLOGY

We interviewed TASC and product vendor representatives for the TCC computers. We obtained and reviewed TASC procurement documentation, examined vendor invoices, and reviewed TCC hardware and software inventory reports and correspondence regarding the TCC shutdown.

Because most TCC system support personnel are no longer employed by DOT, our review was limited to interviews of available personnel and reviews of existing documents to determine whether TASC provided any customer services on the computers after TCC was shut down in July 2000. We contacted the equipment vendor and the General Accounting Office to determine whether there was a method to analyze TCC computer usage since July 2000.

We performed our audit during May and June 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.

EXHIBIT B. 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
Gary Klauber	Computer Scientist
Thomas Lehrich	Associate Counsel



Deputy Secretary of Transportation
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M E M O R A N D U M

December 20, 2002

TO: INSPECTOR GENERAL KEN MEAD

FROM: MICHAEL P. JACKSON 

SUBJECT: Response to Draft Report, "Shutdown of the Transportation Computer Center"

The Department appreciates the opportunity to respond to the Office of Inspector General (OIG) draft report on "Shutdown of the Transportation Computer Center." I'd like to address three issues with this memorandum: (1) the specific matters related to the Transportation Computer Center that are raised by your draft report; (2) Secretary Mineta's broader concerns about the business model and organizational structure under which the Transportation Administrative Service Center (TASC) has, until recently, operated; and (3) steps that the Department has taken to address both the specific and broader concerns.

Transportation Computer Center. The Department directed the shutdown of the Transportation Computer Center (TCC) operated by TASC in response to OIG reports in February 1998 and March 1999, which found TCC was not operated cost-effectively. In addition, the House Committee on Appropriations in July 1998 recommended as follows:

The Committee's recommendation eliminates the transportation computer center within the transportation administrative service center and permits the operating administrations to procure similar services from other governmental or private providers.

The Department subsequently ordered the TCC to be shut down, but did not implement this closure until early 2000, apparently in part because of the need to focus on fixing Year-2000 computer problems. However, as you reported, TASC procured the TCC computers and software licenses after the shutdown decision, spending more than \$1 million between October and December 2000.

The decision to buy leased computers, which proved to have little or no resale value, rather than return them to the vendor with no penalty represented an inappropriate decision reflecting extremely poor business judgment by TASC.

Reassessing the TASC mission. TASC's motivation to buy the computers appears to have been the desire to attract business from agencies outside DOT. That business never materialized. We agree with your report that it was inappropriate for TASC to pass the charges to DOT customers as part of TCC shutdown costs, particularly since the purchase was intended to support business opportunities with agencies outside DOT and would not be used for DOT customers.

TASC's decision to purchase the TCC computers and software illustrate broader structural problems regarding the business model and organizational structure under which TASC was operating. At that time, TASC's mission, in our opinion, lacked clarity and focus on DOT core competencies. Its ambition to operate as a service provider for other agencies and thus lower the cost of internal DOT administrative services never materialized.

Secretary Mineta restructures TASC. As you know, in February 2002, DOT appointed a TASC Review Board, chaired by the Assistant Secretary for Budget and Programs, to review the full range of TASC operations. This was done following a preliminary assessment in the Fall of 2001 by Office of the Secretary staff assisted by you and your staff. Based on the recommendations of the Review Board, his own observations of TASC operations, and a series of audit reports by your office, the Secretary concluded that more fundamental structure and management changes were needed in TASC.

The Secretary decided to abolish TASC as a separate entity within the Department. We have transferred the majority of its employees to the Office of the Assistant Secretary for Administration, with a smaller number of employees now reporting to the Department's Chief Information Officer. The position of Director of TASC has been abolished. We are conducting a thorough review of all ongoing TASC business and assessing internal DOT administrative support requirements. This initial reorganization of assets will be completed by the beginning of the new year.

In addition, we have begun implementing appropriate business reforms. These reforms will require the use of more business-like principles, the establishment of a rigorous cost accounting system to allocate costs appropriately, and independent financial audits each year under the supervision of your office. While some of these measures may take some time to implement, they will enhance accountability to the taxpayers and DOT customers.

Regarding the report's recommendation to dispose of the computers and associated equipment, after receipt of your draft report TASC was directed to take immediate action. In October 2002, TASC donated the computers and equipment to the Federal Bureau of Investigation.

I further requested the Department's General Counsel to review whether the decision to purchase the TCC computers violated statutory restrictions, Department rules or called for

disciplinary actions of any sort. After an extensive review, the General Counsel has found no such violations and has not recommended disciplinary action for any individual.

We have notified the appropriate Congressional committees regarding the fundamental reforms that the Secretary has implemented regarding TASC.