
Office of Inspector General
Audit Report

*Acquisition of Graphics Services in the
Department of Transportation*

Report Number: MA-1999-106

Date Issued: June 23, 1999





Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Subject: **ACTION:** Report on the Acquisition of Graphics
Services in the Department of Transportation
MA-1999-106

Date: June 23, 1999

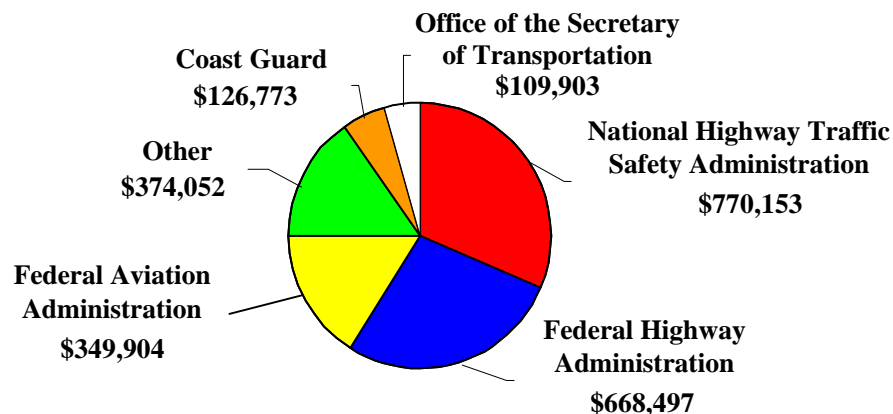
From: Lawrence H. Weintrob
Assistant Inspector General for Auditing

Reply to: JA-40
Attn of:

To: The Deputy Secretary

This report presents the results of our audit of the Acquisition of Graphics Services in the Department of Transportation (DOT). The objectives were to determine whether Operating Administrations are obtaining graphics services cost effectively and in a manner that is beneficial to both the individual Operating Administration and the Department as a whole. Graphics services involve the design and layout necessary to prepare publications and brochures for printing. As shown in the following chart, DOT and its Operating Administrations spent about \$2.4 million for graphics services in fiscal year (FY) 1998.

Total Cost of FY 1998 Graphics Services



Departmental policy requires Operating Administrations to obtain administrative support services, including graphics, from the Transportation Administrative Service Center (TASC) unless a financial analysis demonstrates that the use of non-TASC sources is cost beneficial to the Department as a whole. Further, the policy requires that the Deputy Secretary, acting on a recommendation from the TASC Board of Directors, approve the use of non-TASC services. Of the \$2.4 million spent on graphics in FY 1998, \$1.35 million (56-percent) was for services acquired from TASC, and \$1.05 million (44-percent) was for services acquired from non-TASC sources.

We initiated this audit because our prior report on TASC¹ noted that it lost \$343,458 on graphics services in FY 1997. TASC lost about 50 percent of its graphics business when the Federal Highway Administration decided to contract for most services directly from non-TASC sources. According to the Federal Highway Administration, the decision was made to save money by avoiding overhead charges TASC included in graphics services billings. This decision spurred debate about whether Operating Administrations are obtaining graphics services in a manner which is beneficial to the Department. This audit focused on the four Operating Administrations that used both TASC and non-TASC sources in FY 1998. They are the Federal Highway Administration, Bureau of Transportation Statistics, Federal Aviation Administration, and the Coast Guard.

RESULTS-IN-BRIEF

Officials in each of the four Operating Administrations we reviewed stated they were generally satisfied with the quality of the graphics services provided by TASC, but were using non-TASC sources to save money. However, none of the Operating Administrations had comparisons documenting that it was more cost effective to obtain graphics services from non-TASC sources. Moreover, the Federal Aviation Administration and Coast Guard did not have the data needed to make the cost comparisons. In addition, none of the Operating Administrations complied with departmental policy to use TASC unless an analysis demonstrates that the use of non-TASC sources is beneficial to the Department as a whole. Finally, none of the Operating Administrations obtained the required prior approval of the Deputy Secretary before using non-TASC sources. Consequently, the Department does not know whether graphics services are being obtained cost effectively.

Our analysis of FY 1998 expenditures by the Operating Administrations shows that three of the four may not be obtaining graphics services cost effectively.

¹ Office of Inspector General Report No. MA-1998-073, *Transportation Administrative Service Center*, issued February 5, 1998.

- The Federal Highway Administration obtained 99 percent (\$662,997) of its graphics services from non-TASC sources. The Federal Highway Administration's Associate Administrator for Administration stated they are saving \$100,000 per year by using non-TASC sources for graphics services. However, the savings quoted represent an estimate of TASC overhead charges that the Federal Highway Administration avoids by using non-TASC sources. The estimate does not represent savings based on a comparison of costs for TASC and non-TASC services. We compared the Federal Highway Administration's cost for ten graphics projects totaling \$108,567 that were obtained from non-TASC sources, with a cost estimate obtained from TASC.² For seven of the ten projects, TASC's estimate was less than what the Federal Highway Administration paid. Overall, our analysis showed that the Federal Highway Administration could have saved over \$27,000 had it used TASC for these ten projects.
- The Bureau of Transportation Statistics obtained 99 percent (\$61,600) of its graphics services from non-TASC sources. The Bureau's Assistant Director for Administration stated they were using non-TASC sources to save money. However, the Bureau has not performed a cost analysis documenting the savings. We selected five projects totaling \$34,025 that were obtained from non-TASC sources and compared what the Bureau paid for each with cost estimates obtained from TASC. In four of the five projects, TASC's estimate was more costly than what the Bureau paid. Overall, our analysis showed the Bureau saved over \$5,000 on these five projects by obtaining graphics services from non-TASC sources.
- The Federal Aviation Administration obtained 73 percent (\$255,817) of its graphics and multimedia related services from non-TASC sources.³ The Director of Graphics and Multi-Media Services stated they used outside sources to save money, but did not prepare a cost analysis documenting the savings. Further, we were unable to perform cost comparisons for projects because the Federal Aviation Administration could not provide cost data for individual projects.
- The Coast Guard obtained 53 percent (\$67,060) of its graphics services from non-TASC sources. The Chief of the Coast Guard's Customer Services Branch stated they were saving money by using non-TASC sources but had no cost analysis

² We validated the reliability of TASC's cost estimates for graphics service by comparing estimated and actual costs for a sample of projects. Based on the results, we concluded it was reasonable to use the TASC estimates in our comparisons.

³ The Federal Aviation Administration believes that the amount of graphics services expenditures is overstated because it includes costs for related services. However, methods used to allocate the costs could not be verified, so we used the total cost for graphics and related services.

documenting the savings. Further, we were unable to perform cost comparisons for projects because the Coast Guard could not provide cost data for individual projects performed by non-TASC sources.

Departmental policy requiring the use of TASC's services is premised on the assumption that shared administrative support services are beneficial to both the Operating Administrations and the Department. However, three of the four Operating Administrations we reviewed may not be obtaining graphics services cost effectively by using non-TASC sources. Moreover, the Federal Aviation Administration and Coast Guard did not have the data needed to make comparisons of the cost for TASC and non-TASC services. In addition, although TASC has improved the cost effectiveness of its graphics function since the time of our previous audit, it still lost \$29,000 during FY 1998. Therefore, neither the individual Operating Administrations nor the Department are realizing the benefits that TASC was designed to provide.

Given this, the Deputy Secretary should direct the TASC Board of Directors to determine whether the Departmental policy requiring the use of TASC for graphics services continues to be in the best interest of the Operating Administrations and the Department as a whole. Based on that determination, the Board should make appropriate recommendations to the Deputy Secretary. At a minimum, these recommendations should include proposals to 1) change or enforce the current Departmental policy requiring the use of TASC for graphics services and 2) improve the cost effectiveness of TASC's graphics services or discontinue it as a shared service.

Responding on behalf of the Deputy Secretary, the Assistant Secretary for Budget and Programs agreed with our recommendations. (See Appendix A.) We consider the actions planned by the Assistant Secretary responsive to our recommendations. However, to facilitate tracking the implementation of these actions, we ask that milestone dates be established and provided to us within 30 days. In addition, the Director of TASC provided written comments that are included in their entirety as Appendix B.

SCOPE AND METHODOLOGY

We performed fieldwork at each of the Department's Operating Administrations and TASC, located in Washington, D.C. At the Operating Administrations, we interviewed management personnel responsible for arranging for graphics services and discussed the quality, cost, source and extent of services acquired, from both TASC and non-TASC sources. We also discussed with each Operating Administration whether financial analyses were prepared to demonstrate the advantage of the chosen source, and whether approval actions to use non-TASC sources were obtained. Based on the results of our preliminary review, we focused our audit on four administrations that used both TASC and non-TASC services during our audit period: the Federal Highway Administration, the Bureau of Transportation Statistics, the Federal Aviation Administration, and the Coast Guard.

For the four Operating Administrations that were the focus of our review, we compared the cost of acquiring services from TASC with the cost of services obtained from non-TASC sources to determine if Operating Administrations acquired graphics services in a cost beneficial way. For the Federal Highway Administration and Bureau of Transportation Statistics, we selected our sample projects based on cost and complexity. We were unable to select projects from the Federal Aviation Administration and Coast Guard because these Operating Administrations lacked the cost data for specific projects. For a sample of 15 projects, (10 for the Federal Highway Administration and 5 for the Bureau of Transportation Statistics), we compared the cost paid by Operating Administration with an estimate of what TASC would have charged for the same work. We validated the reliability of TASC cost estimates by comparing a sample of estimates with the amounts ultimately billed to the Operating Administrations.

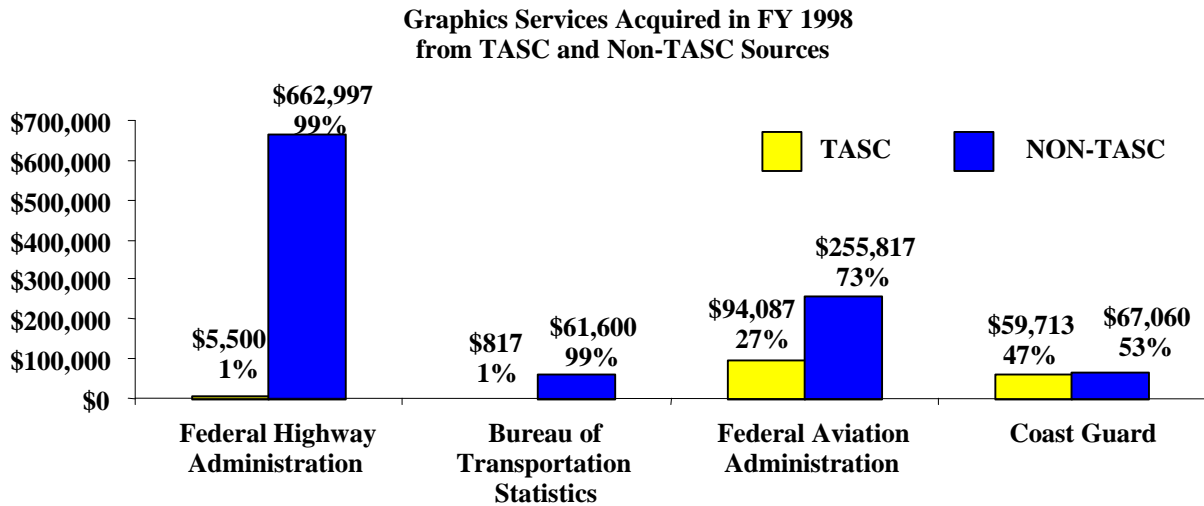
We performed our work in accordance with the Government Auditing Standards prescribed by the Comptroller General of the United States. Our review was conducted from September 1998 through February 1999, and focused on graphics activity during FY 1998.

FINDINGS

Operating Administrations Are Not Using TASC Exclusively

Although Operating Administrations were generally satisfied with the graphics services TASC provides, the four Operating Administrations we reviewed were still not using TASC for all of their needs. During FY 1998, the Federal Highway Administration, Bureau of Transportation Statistics, Federal Aviation Administration, and Coast Guard

obtained \$1.05 million in graphics services from sources other than TASC. The dollar value of services obtained by the four Operating Administrations and the percentage of TASC and non-TASC services they obtained are shown in the following chart.



We discussed the reasons for using non-TASC sources with graphics management officials in each of the four Operating Administrations, who told us they were saving money by using non-TASC sources. We also asked these officials for documentation supporting their estimates of cost savings. However, none could provide us with reports, studies, cost comparisons or analyses demonstrating that the use of non-TASC sources saved money. Moreover, the Federal Aviation Administration and Coast Guard did not have the cost data needed to perform cost comparisons. Specifically:

- The Director of the Federal Highway Administration’s Office of Information and Management Services stated they are saving \$100,000 per year by using non-TASC sources for graphics services. Moreover, in a February 3, 1999 memorandum to the Office of Inspector General, the Federal Highway Administration’s Associate Administrator for Administration stated that cost was the main force driving their decision to obtain graphics services directly from vendors. In order to provide for more flexibility and reduced costs, the Federal Highway Administration established indefinite quantity contracts for graphics in December 1997. However, the savings quoted by the Federal Highway Administration represent a calculation of TASC overhead charges that the Federal Highway Administration avoids by using non-TASC sources. The estimate does not represent savings based on a comparison of actual or estimated costs for TASC and non-TASC services.

- The Assistant Director for Administration for the Bureau of Transportation Statistics stated they save money by using non-TASC sources almost exclusively. They obtain the services of contractors through TASC's Acquisition Services unit. They did not, however, perform any financial analyses demonstrating that non-TASC sources were less expensive than TASC. The Bureau's Assistant Director for Administration also stated that they were unaware of the departmental policy requiring the use of TASC for common administrative services.
- The Director of the Federal Aviation Administration's Air Traffic Graphics and Multi-Media Center stated they save 25 to 50-percent on graphics services by not using TASC. However, the Federal Aviation Administration has not performed an analysis to determine if non-TASC sources are less expensive. Furthermore, the Federal Aviation Administration has not kept necessary documentation or accounted for the cost of individual projects so that this analysis could be done. Currently, a non-TASC contractor that is available on-site provides graphics and related services, including layout and design, document preparation, and video and multimedia production. All of the Federal Aviation Administration's costs for these services, except supplies, are absorbed by the Air Traffic Division and are not billed to individual users or projects. Since the billed cost of the Federal Aviation Administration's projects includes only supplies, the data needed for comparing its cost with TASC's is not available.
- The Chief of Coast Guard's Customer Services Branch stated they are saving money by having on-site, non-TASC contractors provide graphics services. However, they did not have any financial analyses demonstrating that it was less expensive to obtain services from non-TASC sources. Moreover, the Coast Guard has not accounted for the cost of individual projects so that this analysis could be done. Users do not pay for the on-site contractor's services out of their individual budgets and are therefore unaware of the actual cost of graphics projects. In addition to cost savings, the Coast Guard noted that delays in completing graphics jobs and lost employee time could increase because Coast Guard and TASC are not located in the same building.

Operating Administrations May Not Be Obtaining Graphics Services Cost Effectively

Our analysis of FY 1998 expenditures by the four Operating Administrations shows that three of the four may not be obtaining graphics services cost effectively. We selected a sample of projects and compared what the Operating Administration paid with an estimate of what TASC would have charged for the same work. Our analysis shows that the Federal Highway Administration paid 25 percent more to the non-TASC source for 10 projects in our sample. The Bureau of Transportation Statistics paid 15 percent less

to the non-TASC source for 5 projects in our sample. We were unable to perform cost comparisons for the Federal Aviation Administration and Coast Guard graphics projects because neither Operating Administration maintains cost records by individual project.

In order to ensure that it was reasonable to use TASC estimates in our comparisons, we selected a separate sample of completed TASC projects and compared the estimate provided to the Operating Administration with the actual cost billed. Our comparison of 390 projects showed that variance between TASC estimates and actual cost was less than 3 percent. In 56 percent of the projects, the TASC estimate was more than the amount actually billed. Based on these results, we concluded that it was reasonable to use the TASC estimates in our comparisons.

For the Federal Highway Administration, we selected ten projects performed by non-TASC sources at a cost of \$108,567. We then independently obtained estimates from TASC for the same ten projects. TASC’s estimates totaled \$81,505, or \$27,062 (25 percent) less than the cost paid to the non-TASC source. The details of our comparison are summarized in Table 1.

Table 1: Cost Comparison of Federal Highway Administration Graphics Projects

Project	Federal Highway Administration Cost	TASC Estimate	Difference Over (Under)	Percentage TASC Over (Under)
1	\$3,050	\$4,375	\$1,325	43
2	3,050	2,025	(1,025)	(34)
3	1,800	1,500	(300)	(17)
4	3,650	3,875	225	6
5	20,000	19,250	(750)	(4)
6	420	250	(170)	(40)
7	100	108	8	8
8	1,600	1,597	(3)	(0)
9	7,397	2,025	(5,372)	(73)
10	67,500	46,500	(21,000)	(31)
Total	\$108,567	\$81,505	(\$27,062)	(25)

For the Bureau of Transportation Statistics, we selected five graphics projects performed by non-TASC sources at a cost of \$34,025 and compared them with estimates independently obtained from TASC. The estimates provided by TASC totaled \$39,050, or \$5,025 (15 percent) more than the cost paid to the non-TASC source. The details of our comparison are summarized in Table 2 below.

Table 2: Cost Comparison of Bureau of Transportation Statistics Graphics Projects

Project	Bureau of Transportation Statistics Cost	TASC Estimate	Difference Over (Under)	Percentage TASC Over (Under)
1	\$1,300	\$2,300	\$1,000	77
2	190	500	310	163
3	6,755	9,875	3,120	46
4	18,780	22,500	3,720	20
5	7,000	3,875	(3,125)	(45)
Total	\$34,025	\$39,050	\$5,025	15

We were unable to perform cost comparisons for the Federal Aviation Administration and Coast Guard graphics projects because neither Operating Administration maintains complete and accurate cost records by individual project. Neither the Coast Guard nor the Federal Aviation Administration track the amount of time that contractor personnel spend on individual projects. Specifically, the Federal Aviation Administration provided information on the overall cost of graphics services but had no comparative cost data for individual projects. Likewise, Coast Guard provided the overall cost of graphics services and the number of graphics projects completed but had no comparative cost data for individual projects.

Issues Raised in Prior Audit Are Still Unresolved

Our February 5, 1998 Report disclosed that TASC’s graphics department lost \$343,458 in FY 1997. Moreover, our Report noted that the Federal Highway Administration, who was responsible for about 50 percent of TASC’s graphics business, had already made the decision to obtain graphics services directly from non-TASC sources. Since the loss of the Federal Highway Administration could further erode TASC’s cost effectiveness, we recommended that TASC discontinue providing graphics services unless they could be made cost effective.

Our current work shows that three of the four Operating Administrations -- including the Federal Highway Administration -- are using non-TASC sources extensively and may

not be obtaining graphics services cost effectively. In addition, although TASC has improved the cost effectiveness of its graphics operation since the time of our previous report, it lost \$29,000 during FY 1998. Therefore, neither the individual Operating Administrations nor the Department are realizing the benefits that TASC was created to provide.

Departmental policy requires the use of the TASC's services unless the Deputy Secretary, acting on a recommendation from TASC's Board of Directors, approves the use of non-TASC sources. The policy requiring the use of TASC is premised on the assumption that shared administrative support services are beneficial to both the Operating Administrations and the Department. However, during FY 1998, the four Operating Administrations we reviewed were allowed to obtain \$1.05 million in graphics services from non-TASC sources without the required analysis and approval. Therefore, the Department does not know whether graphics services are being obtained in a manner that is cost effective, and in the best interests of the Operating Administrations and the Department as a whole.

RECOMMENDATIONS

We recommend that the Deputy Secretary direct the TASC Board of Directors to determine whether the Departmental policy requiring the use of TASC for graphics services continues to be in the best interest of the Operating Administrations and the Department as a whole. Based on that determination, the Board of Directors should make appropriate recommendations to the Deputy Secretary to assure that graphics services are obtained cost effectively. At a minimum, these recommendations should include proposals to:

- 1) change or enforce the current Departmental policy requiring the use of TASC for graphics services, and
- 2) improve the cost effectiveness of TASC's graphics services or discontinue it as a shared service.

MANAGEMENT COMMENTS

Responding on behalf of the Deputy Secretary, the Assistant Secretary for Budget and Programs agreed with our recommendations. The Assistant Secretary stated that the TASC Board of Directors would determine whether the Departmental policy requiring the use of TASC for graphics services continues to be in the best interest of the Department. In addition, the TASC Board of Directors should discuss why the policy of the Board requiring the use of TASC, unless financial analysis demonstrates that the use of non-

TASC sources is cost beneficial to the Department as a whole, is not being used. The Assistant Secretary's response is included in its entirety as Appendix A.

We did not request written comments from each Operating Administration, but did discuss the contents of this report with officials responsible for obtaining graphics services. Where appropriate, their views are included in the final report. In addition, the Director of TASC provided written comments that are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL COMMENTS

Actions agreed to by the Assistant Secretary for Budget and Programs are considered responsive to our recommendations. However, to facilitate tracking the implementation of these actions, we ask that milestone dates be established and provided to us within 30 days.



Memorandum

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

Subject: Draft Report on the Acquisition of Graphics Services
in DOT Project No: 8J3-008-J000

Date: June 9, 1999

From: Peter J. Basso *PJB*
Assistant Secretary for Budget and Programs

Reply to
Attn. of:

To: Lawrence H. Weintrob
Assistant Inspector General for Auditing

Thank you for the opportunity to review the draft report presenting the results of the IG audit of the Acquisition of Graphics Services in DOT.

I agree with your recommendation that the TASC Board of Directors should discuss whether the Departmental policy requiring the use of TASC for graphics services continues to be in the best interest of the Department. In addition, I think that the TASC Board of Directors should discuss why the policy of the Board, requiring use of TASC unless financial analysis demonstrates that the use of non-TASC sources is cost beneficial to the Department as a whole, is not being followed.

The results of your audit are interesting in that, given where cost comparisons were available, the IG revealed that a total of \$22,000 could have been saved if TASC had been used. That cost comparison does not even include the cost of Federal staff in the individual modes used to manage the outside contract. The results of the IG report imply to me that the policy is correct, but compliance with that policy is the issue. If the policy had been followed, it is most likely that TASC graphic services would not have lost money in FY 1998.




U.S. Department of
Transportation

Memorandum

Subject: OIG Graphic Response

Date: JUN 17 1999

From:


George C. Fields
Director, TASC

Reply to
Attn. of:

To:

Tom Howard
Deputy Assistant Inspector General for
Maritime & Departmental Program

The issuance of the subject report by the Office of the Inspector General once again affirms the efficiency and cost effectiveness of services rendered by the Transportation Administrative Services Center (TASC). There are challenges presented by this report which extend beyond the bounds of the report's specific findings and recommendations. Although the report is a review of TASC's graphics services, its findings challenge departmental management to justify on the basis of performance or cost the failure to use TASC services in general. The findings of this report support the original premise upon which TASC was created that economies of scale are realized through consolidation of departmental requirements.

Based on our review of OIG's findings, three areas of concern are recommended for further review to either more appropriately address or factually correct.

- The OIG report does not compare like costs. The report refers to what DOT Operating Administrations (OAs) "spent" on graphics services without specifically noting that these costs only represent contract costs. The OAs' complete costs for these services were not used for the comparative evaluation - costs such as staff salary, benefits, space, and other support costs associated with ordering and receiving graphics services. Clearly, the OAs' costs are not limited solely to the cost of its contractor(s). If the full costs had been included in OIG's cost comparisons the report would have concluded that even greater savings could be realized by utilizing the services of TASC.
- As stated in the OIG report, DOT financial reports indicate that Graphics recorded a loss of \$29,000 in FY 98. In early FY 98, TASC reassigned an employee from the Graphics function to a different TASC function. Unfortunately, this change was not appropriately recorded in the personnel and accounting systems until early in FY 99. Therefore, \$58,000 of this employee's salary and benefit costs were inappropriately charged to Graphics in FY 98. When this amount is subtracted from Graphics costs

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in FY 98, Graphics actually over recovered \$29,000 in revenue. We attempted to get these costs appropriately assigned throughout FY 98 and regret that this change was not accomplished earlier.

- During the review, OIG discovered that some OAs are purchasing graphics services without having conducted cost comparisons, cannot provide OIG cost data for individual graphics projects, and do not know the extent of expenditures on their graphics services. These lapses seem to raise the broader question as to whether or not these organizations are fulfilling their fiduciary responsibility to appropriately expend federal funds and whether federal funds are being wasted. Yet, the OIG report does not address this issue in its report findings or recommendations nor outline remedial actions by the offending OAs. Although this issue is outside the scope of the performance and cost effectiveness of a TASC service, it is an issue which merits addressing by OIG.