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March 2016

Audit of the Financial Results of the Telephone, Wireless, and Data Cost Center

FINANCIAL MANAGEMENT DIVISION

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OIG HIGHLIGHTS

AUD-FM-16-32

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Financial Management Division

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What Was Found

Kearney found that the TWD Cost Center collected fees in excess of the amount needed to cover the costs to sustain its operations. The total amount of revenue from FY 2010 to FY 2014 exceeded the TWD Cost Center's expenses by more than \$25 million.

One reason this occurred is that the TWD Cost Center fee-setting methodology was not effective. Specifically, the fees charged from FY 2010 to FY 2014 were established in FY 2005 and have not been updated. The Bureau of Information Resource Management was unable to provide documentation to support the fee amounts. Although the TWD Cost Center proposed an update to the fees in FY 2013, no action was taken on the effort, and no additional attempts have been made to update the fee structure, even though a significant segment of services—wireless services—are no longer handled by the TWD Cost Center.

Another cause of the issues identified with the TWD Cost Center's financial results was that Kearney identified instances where the TWD Cost Center provided services to bureaus without charging a fee. For example, the TWD Cost Center did not have an accurate inventory of data ports used by three organizations and did not charge those organizations for that service. Further, the TWD Cost Center did not have a method to charge a customer only for the cost of providing connectivity. In addition, the TWD Cost Center sometimes provided services to bureaus and offices that were not charged because accurate data to identify usage was not always available.

Without an effective fee-setting methodology, it is more difficult for the TWD Cost Center to effectively control costs, account for activities, and encourage efficiency. Additionally, charging customers for services received by others risks noncompliance with Federal appropriations law. Further, without an effective process to charge and collect fees for services rendered, revenue may not be available to cover operating costs and sustain operations in the future.

What Was Audited

The Department of State (Department) established the Telephone, Wireless, and Data Cost Center (TWD Cost Center) to provide centralized management control over equipment, services, and maintenance for unclassified voice and data telecommunications.

Acting on the Office of Inspector General's (OIG) behalf, Kearney & Company, P.C. (Kearney), an independent public accounting firm, conducted this audit to determine whether the fees collected for the TWD Cost Center were sufficient to cover all operating costs required to sustain operations for the activity.

What OIG Recommends

OIG made six recommendations to the Department to improve the effectiveness of the TWD Cost Center's fee-setting. The Bureau of Administration concurred with Recommendations 1-4, and the Bureau of Information Resource Management (IRM) concurred with Recommendations 5 and 6. OIG considers all six recommendations resolved, pending further action.

IRM's comments are included in this report as Appendix B, and the Bureau of Administration's comments are included as Appendix C.

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Audit of the Financial Results of the Telephone, Wireless, and Data Cost Center

Office of Inspector General
U.S. Department of State
Washington, D.C.

Kearney & Company, P.C. (Kearney), has performed an audit of the financial results of the Telephone, Wireless, and Data Cost Center. This performance audit, performed under Contract No. SAQMMA14A0050, was designed to meet the objective identified in the report section titled "Objective" and further defined in Appendix A, "Purpose, Scope, and Methodology," of the report.

Kearney conducted this performance audit from April 2015 to February 2016 in accordance with *Government Auditing Standards*, 2011 Revision, issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of Kearney's performance audit.

Kearney appreciates the cooperation provided by personnel in Department of State offices during the audit.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is stylized and cursive.

Kearney & Company, P.C.
Alexandria, Virginia
February 29, 2016

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OBJECTIVE

The overall objective of this audit was to determine whether the fees collected for the Telephone, Wireless, and Data Cost Center (TWD Cost Center) were sufficient to cover all operating costs required to sustain operations for the activity.

BACKGROUND

Agencies can improve their operational efficiency by using shared services,¹ which are often financed through revolving funds.² In 1963, Congress passed a law requiring the Department of State (Department) to establish a Working Capital Fund (WCF). A WCF is a type of revolving fund. The Department established the WCF to do the following:

- Provide a more effective means for controlling the costs of goods and services produced by commercial-type activities.
- Provide an effective and flexible way to finance, budget, and account for commercial-type activities.
- Encourage cost consciousness and efficiency for users and suppliers of services.
- Promote a buyer-seller relationship between the producing activity and the customer.³

As codified, the Department's WCF "shall be reimbursed, or credited with advanced payments . . . for supplies and services at rates which will approximate the expense of operations, including accrual of annual leave and depreciation of plant and equipment of the fund."⁴

The Department's WCF provides services to bureaus and offices throughout the Department and to other Federal agencies. According to the Department's FY 2015 Congressional Budget Justification, for management purposes, the Department's WCF is divided into 38 individual cost centers, including the TWD Cost Center. Each WCF cost center provides unique services to customers, such as operating the Department's shuttle bus, ordering newspapers, shipping goods overseas, and providing telecommunication services. The Bureau of Administration, Office of the Executive Director, Working Capital Fund Division (A/EX/WCF), has financial responsibility for the WCF cost centers; however, the cost centers operationally report to other bureaus or offices within the Department. For instance, the TWD Cost Center is organizationally part of the Bureau of Information Resource Management (IRM).

¹ Government Accountability Office, *Intragovernmental Revolving Funds: Commerce Departmental and Census Working Capital Funds Should Better Reflect Key Operating Principles* (GAO-12-56, November 2011).

² A revolving fund is established by law to track collections used to fund business-type activities provided within the Government.

³ Foreign Affairs Handbook, 4 FAH-3 H-113.4-3, "Working Capital Fund."

⁴ Title 22, United States Code §2684, "Capital Fund for Department of State."

According to an A/EX/WCF policy,⁵ A/EX/WCF is responsible for reviewing the adequacy of cost center pricing. The policy states that A/EX/WCF officials meet with cost center managers quarterly to review financial results and determine whether cost center prices are adequate to recover the costs of each operation. The policy also states that the annual WCF budget process is used to review financial trends to determine whether prices are adequate to recover costs. A/EX/WCF targets a formal pricing review for each major service every 5 years.

Telephone, Wireless, and Data Cost Center

The Department established the TWD Cost Center on August 13, 1986, to provide centralized management control over equipment, services, and maintenance for unclassified voice and data telecommunications. Initially, the TWD Cost Center provided three categories of service—telephone, wireless, and data—to users in the Department and Department annexes in the Washington, DC, metropolitan area, as well as the Department's Warrenton Training Center, Florida Regional Center, Charleston Financial Services Center, regional passport offices, and other domestic sites.

Organizationally, the TWD Cost Center falls under IRM's Deputy Chief Information Officer for Operations, Enterprise Network Management Office. The Enterprise Network Management Office ensures the integrity and availability of communications, which is important to the Department's reliance on IT communications and mission worldwide. Within the TWD Cost Center, there are two separate branches. One branch is responsible for customer service and provides initial and ongoing interactions with customers, which includes setting up services and initiating the billing process for each customer. The other branch provides technical support for services provided by the TWD Cost Center.

A separate group within IRM, the Strategic Planning Office, Financial Management Division, Working Capital Fund Branch, under the Deputy Chief Information Officer for Business Management and Planning (IRM/BMP/SPO/FMD/WCF), serves as IRM's central point of contact for all interaction between the TWD Cost Center and A/EX/WCF. IRM/BMP/SPO/FMD/WCF ensures appropriate TWD Cost Center spending against budgets, reconciles issues regarding external vendor invoices, handles TWD Cost Center customer billings, prepares revenue and expense reports, and provides additional financial management support to the TWD Cost Center. Figure 1 shows the organizational responsibility for the TWD Cost Center.

⁵ WCF Policy and Procedures for Annual Review of Cost Center Pricing, May 2014.

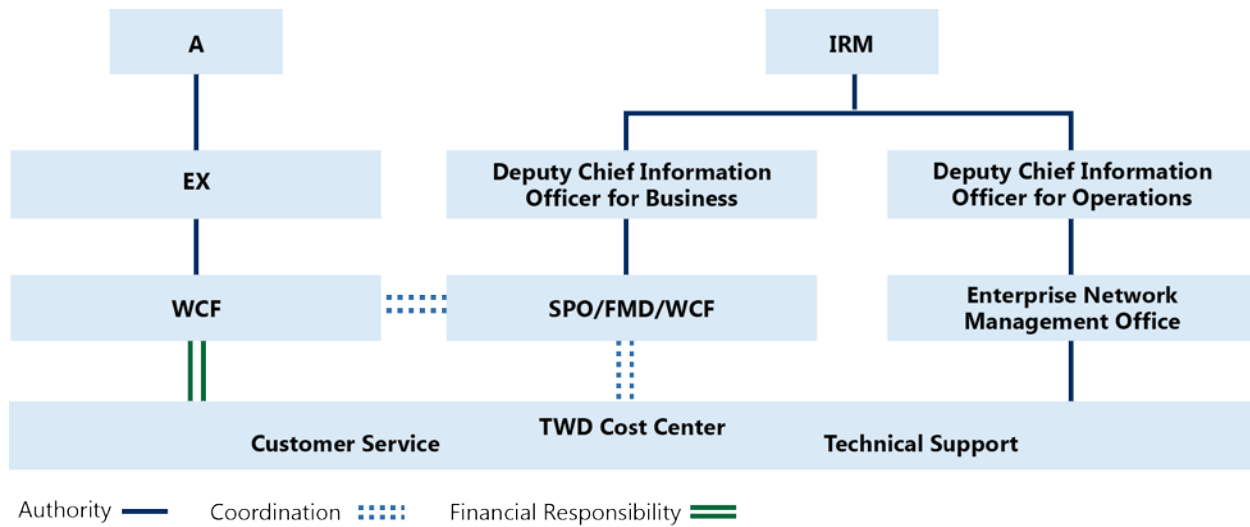


Figure 1: Organizational Responsibility for the TWD Cost Center.

Source: Kearney & Company, P.C. (Kearney) prepared based on information obtained during audit.

TWD Cost Center services are documented in IRM's General Services Officer Guidelines,⁶ which provide users with information on the types and cost of services that can be provided. These services cover installation, operation, and maintenance of the equipment, lines, and circuits supplied by service providers, as well as voice and data network services and the Enterprise Network Program (E-Net)⁷ for the Washington, DC, metropolitan area. Additionally, the TWD Cost Center provides telecommunications technical support (for example, network engineers, network design specialists, project managers, translators, technicians, and telecommunications specialists) to its customers. The service categories, fees, and examples of services provided by the TWD Cost Center in FY 2014 are listed in Table 1.

Table 1: TWD Cost Center Services and Fees

Service Category	Description of Service	One-time Fee (Installation)	Recurring Fee ^a
Telephone	Phone line (voice network)	\$130.00 ^b	\$62.04
Telephone	Voicemail (voice network)	Not applicable	\$3.00
Telephone	Phone services (outside voice network)	Fees vary by requested quantity and location	Fees vary by requested quantity and location
Telephone	Calling cards	Not applicable	\$10 per call plus per minute charge set by service provider

⁶ Department of State General Services Officer Guidelines, Version 10, December 29, 2014.

⁷ The E-Net program provides network connections to Department employees to access the Department's two enterprise networks, OpenNet and ClassNet. OpenNet provides access to standard desktop applications, e-mail, and the internet. ClassNet provides an internal network for classified e-mail and other processing of classified information.

Service Category	Description of Service	One-time Fee (Installation)	Recurring Fee ^a
Wireless	Cellular phones, BlackBerries, and other wireless data communications	Not applicable	Fees vary based on usage
Wireless	Wi-Fi access	Not applicable	<ul style="list-style-type: none"> • \$600.00 for 3 days or less • \$100.00 for each additional day over 3 days
Data	E-Net Access (100 megabit per second port)	\$106.00 ^c	<ul style="list-style-type: none"> • \$26.00 per desktop computer • \$800.00 per switch^d
Data	E-Net Access (1 gigabit per second port)	\$106.00 ^c	<ul style="list-style-type: none"> • \$52.00 per desktop computer • \$1,000.00 per switch
Data	Special data services outside of E-Net	Fees vary by request	Fees vary by request
Data	Cabling	Fees vary by request	Not applicable

^a Recurring fees are monthly charges unless specifically stated otherwise.

^b The one-time fee per phone line consists of a \$15 programming fee and a \$115 installation fee. If a customer requests multiple phone lines, the installation fee is \$115 for the first line and \$35 for each additional line.

^c The installation fee is \$106 for the first connection and \$26 for each additional connection.

^d A switch is a device used to establish connections between equipment on the data network.

Source: Prepared by Kearney based upon the Department of State General Services Officer Guidelines, Version 10, December 29, 2014.

IRM/BMP/SPO/FMD/WCF and the TWD Cost Center use the NetPlus Telecommunications System (NetPlus) to manage the services provided to Cost Center customers. NetPlus is a web-based application that tracks Telecommunications Service Requests⁸ (TSRs), automatically matches external vendor charges to TWD Cost Center customers, and generates invoices for customers. After a customer submits a TSR, a TWD Cost Center customer service employee enters the TSR into NetPlus and estimates the cost to complete the request. Once a customer agrees to the estimate and provides funding information, TWD Cost Center personnel initiate the service requested and update NetPlus with information on the service provided. In addition, a unique identifier, called "asset information," is entered into NetPlus. For example, if the TWD Cost Center installs a new telephone, a TWD Cost Center customer service employee assigns the telephone number as the asset information number in NetPlus.

Once the service is provided, TWD Cost Center personnel mark the TSR closed in NetPlus, which initiates the billing process. External vendors handle many of the services provided by the TWD

⁸ A TSR is the TWD Cost Center's standard form for a customer or potential customer to initiate or change service.

Cost Center. These external vendors submit monthly invoices of services provided. Each month, IRM/BMP/SPO/FMD/WCF personnel download and process external vendor invoices into NetPlus. The asset information entered into NetPlus is used to link customer usage to invoices submitted by external vendors in order to charge customers accurately for services used. NetPlus also applies the recurring fees⁹ for each service provided. Amounts are automatically added to each customer's account. At the end of the month, IRM/BMP/SPO/FMD/WCF performs a final review and generates customer invoices. The customer invoices are available in NetPlus for TWD Cost Center customers to review and verify.

On April 24, 2014, IRM transitioned wireless services from the TWD Cost Center to the Mobile and Remote Access Cost Center (MRA Cost Center). Similar to the TWD Cost Center, the MRA Cost Center is organizationally part of IRM. Before the transition, the MRA Cost Center provided only certain mobile telecommunications services. According to IRM officials, the purpose of the transition was to consolidate all domestic wireless and mobile telecommunications services in one cost center. Even though the MRA Cost Center was responsible for providing wireless services previously provided by the TWD Cost Center beginning in April 2014, the TWD Cost Center retained financial responsibility for the wireless services through the end of FY 2014.¹⁰

AUDIT RESULTS

Finding A: The Telephone, Wireless, and Data Cost Center Collected More Fees Than Necessary To Sustain Operations

The TWD Cost Center collected fees in excess of the amount needed to cover the costs to sustain its operations, which is not consistent with Government Accountability Office (GAO) guidance on revolving funds included in the Principles of Federal Appropriations Law.¹¹ The total amount of revenue from FY 2010 to FY 2014 exceeded the TWD Cost Center's expenses by more than \$25 million. IRM officials indicated that at least some of these funds were needed to cover the cost to upgrade equipment. One reason this occurred is that the TWD Cost Center's fee-setting methodology was out of date and not well documented. In addition, the methodology did not consider the impact of the transition of wireless services from the TWD Cost Center to the MRA Cost Center or the impact of the approximately \$26 million in retained funds. Kearney also found that the TWD Cost Center provided services to bureaus and offices that were not charged. Because the TWD Cost Center did not have an effective fee-setting methodology, the TWD Cost Center could not ensure it was charging the correct fees for services.

⁹ TWD Cost Center services and fees, including recurring fees, are shown in Table 1.

¹⁰ This audit does not include an analysis of the financial results of the MRA Cost Center.

¹¹ GAO, Principles of Federal Appropriations Law, 3rd ed., Vol. III, Chapter 12, Section C.5 "Augmentation and Impairment" (GAO-08-978SP, September 2008).

Fees Collected Have Exceeded TWD Cost Center Expenses

The Foreign Affairs Handbook¹² states that the charges for WCF services “must be sufficient to cover all operating and overhead¹³ expenses, including the replacement of capital assets, required to sustain activity operations.” The Principles of Federal Appropriations Law¹⁴ state that revolving funds “are intended to operate on a break-even basis or reasonably close to it, over the long term.”

The TWD Cost Center had collected more fees than needed to sustain its operations. From FY 2010 to FY 2014, TWD Cost Center revenue exceeded expenses by more than \$25 million, as shown in Table 2.

Table 2: TWD Cost Center Financial Results for FY 2010–FY 2014*

Fiscal Year	Revenue (in millions)	Expenses (in millions)	Profit/(Loss)	
			Amount (in millions)	Percent
2010	\$67.9	\$59.6	\$8.3	12
2011	83.2	75.9	7.3	9
2012	78.0	89.5	(11.5)	(15)
2013	100.5	94.0	6.4	6
2014	104.2	89.0	15.2	15
Total	\$433.8	\$408.0	\$25.7	6

* Some numbers in this table may not add because of rounding.

Source: Prepared by Kearney based upon Global Financial Management System Data Warehouse General Ledger Account Activity Extract report.

Of the 5 years analyzed, FY 2012 was the only year in which revenue did not exceed expenses. According to TWD Cost Center officials, in FY 2012 the TWD Cost Center transitioned to a new contract vehicle—IRM's Vanguard program¹⁵—for independent contractor support service. Prior to FY 2012, the TWD Cost Center annually paid approximately \$15 million, using time and

¹² 4 FAH-3 H-113.4-3.

¹³ Overhead costs are administrative costs associated with the centralized management of an organization that are charged to customers on a prorated basis. These costs typically include salaries and benefits, travel, furniture, equipment, supplies, and materials.

¹⁴ GAO-08-978SP, Chapter 12, Section C.5 “Augmentation and Impairment.”

¹⁵ According to IRM officials, the Vanguard program was developed by IRM to consolidate and centralize IT services so that IRM can increase accountability and transparency and create operational efficiencies and cost savings. Under the Vanguard program, IRM consolidated and replaced approximately 120 contracts and task orders with 10, primarily firm-fixed price performance-based, task orders.

materials¹⁶ contracts, for contractor support. Under the Vanguard program, the TWD Cost Center annually pays approximately \$25 million, using a firm-fixed-price¹⁷ task order for services.

In addition, the Vanguard contractors did not initially track their time sufficiently for the TWD Cost Center to be able to allocate Vanguard-related costs to its customers.¹⁸ Therefore, the TWD Cost Center was unable to charge certain costs to customers in FY 2012. Further, during FY 2012, the TWD Cost Center installed a new version of NetPlus, which created TSR processing delays. This also created a situation where the TWD Cost Center was unable to charge customers for service.¹⁹ These issues led to the FY 2012 deficit.

Overall, even with issues that occurred in FY 2012, the TWD Cost Center had collected more fees than it needed to cover the cost of operations during FYs 2010-2014. As of September 30, 2014, the TWD Cost Center had \$25.7 million in profit, which represents a profit margin of approximately 6 percent during FY 2010 through FY 2014. TWD Cost Center officials stated that at least some of the funds available at the end of FY 2014 were needed to cover the cost of technical refreshes²⁰ for voice and data equipment. The TWD Cost Center performs some technical refreshes annually. Some IRM officials indicated that the TWD Cost Center's goal is to refresh all of the Cost Center's equipment every 5 years. Other officials stated that the TWD Cost Center's goal is to refresh areas of the network only as warranted. TWD Cost Center officials estimate that the annual cost for technical refreshes is between \$14 million and \$16 million. According to TWD Cost Center officials, between FY 2010 and FY 2014, the Cost Center performed some refreshes, but it had not completed a full technical refresh cycle for either voice or data equipment.

Fee-Setting Methodology Was Not Effective

According to GAO,²¹ methodologies for establishing fees should ensure fees are established in a manner that enables a cost center to cover its costs of operations over time. The guidance further states that the fee-setting methodology should be "transparent and equitable" to "allow agencies to ensure that rates charged recover agencies' actual costs and reflect customers' service usage." Kearney found that the TWD Cost Center fee-setting methodology was not effective and did not comply with GAO guidance.

¹⁶ Under the Federal Acquisition Regulation, Subpart 16.601, a time-and-materials contract provides for acquiring supplies or services on the basis of (1) direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit; and (2) actual cost for materials (except as otherwise provided for in the Federal Acquisition Regulation).

¹⁷ Under Subpart 16.202-1 of the FAR, a firm-fixed price contract provides for a price that is not subject to an adjustment based on the contractor's cost experience in performing the contract.

¹⁸ TWD Cost Center officials worked with Vanguard vendors to remediate this problem. By FY 2013, the issue had been corrected.

¹⁹ TWD Cost Center officials remediated the issues with NetPlus by FY 2013.

²⁰ According to TWD Cost Center officials, technical refreshes include the replacement and upgrade of equipment associated with services provided to TWD Cost Center customers.

²¹ GAO-12-56.

From FY 2010 to FY 2014, the TWD Cost Center was charging its customers fees that were established in FY 2005. According to an A/EX/WCF policy document, A/EX/WCF is responsible for reviewing the adequacy of cost center pricing. According to the policy, A/EX/WCF would perform this assessment during each year by reviewing the financial results of the cost center. The policy states that A/EX/WCF “targets” having a formal pricing review for each major service area every 5 years. However, Kearney found that neither A/EX/WCF nor the TWD Cost Center formally reassessed the Cost Center fees between FY 2005 and FY 2013. In FY 2013, TWD Cost Center officials proposed a new fee structure; however, no action was taken on the proposal and therefore the fees remained unchanged from FY 2005. According to Department officials, one reason that no action was taken in FY 2013 was that the Department does not have a clear policy on which bureau—the Bureau of Administration or IRM—is authorized to make the final determination on the fees to be charged.²²

Because the fees have not been updated since FY 2005, certain significant changes in the Cost Center’s operations are not adequately reflected in the rates. For example, in FY 2014, all wireless services transitioned from the TWD Cost Center to the MRA Cost Center, but the TWD Cost Center fees remained the same. While contractor costs and external vendor fees associated with wireless services transitioned to the MRA Cost Center, Kearney was unable to determine whether any overhead costs associated with wireless services were embedded in the TWD Cost Center’s fees for non-wireless services. Neither TWD Cost Center nor MRA Cost Center officials were able to provide evidence that any cost analysis was performed to assess the impact of the transition on the TWD Cost Center’s operational results or fees.

Kearney attempted to assess the reasonableness of the TWD Cost Center fees. While Kearney was able to obtain a listing of the fees charged, neither A/EX/WCF nor TWD Cost Center officials were able to provide documentation to support the amount charged for the fees because the fees were established so long ago. Additionally, since the establishment of the fees in FY 2005, the TWD Cost Center relocated to a new office building and the majority of its employees transitioned to new positions. TWD Cost Center officials stated that because much of the support was not maintained electronically, it was difficult for them to locate the documentation. According to TWD Cost Center officials, Federal employees coordinating with contractor support originally developed the fees within the TWD Cost Center.

Because of the lack of documentation, Kearney was unable to validate the reasonableness of any of the fees or confirm whether overhead amounts were appropriately allocated to services provided. However, based on a general review of the fees, Kearney identified discrepancies. Specifically, Kearney reviewed the listing of fees included in the Department’s General Services Officer Guidelines and found:

- The monthly fees for telephone lines and voicemail are \$62.04 and \$3.00, respectively. The TWD Cost Center could not support that these fees were reasonable based on the costs it incurred to provide the services.

²² A/EX/WCF has financial responsibility for the WCF cost centers; however, TWD operationally reports to IRM.

- The E-Net access fees are charged based on the connection speed of the data port used to connect to E-Net. The monthly fee charged for the 1 gigabit per second port is \$52.00, while the fee charged for the 100 megabit per second port is \$26.00. The TWD Cost Center could not support that these fees were reasonable based on the costs it incurred to provide the services. In fact, the TWD Cost Center could not provide support to substantiate charging different fees for different data port speeds.

Even though the FY 2013 proposal to revise fees was not approved, Kearney assessed the methodology to determine whether it complied with GAO guidance on setting fees. Kearney found that the FY 2013 methodology generally addressed the factors that GAO recommended be considered when establishing a fee. However, some items were not included. For example, according to GAO,²³ "OMB Circulars No. A-25 and No. A-11 instruct agencies to include all direct and indirect costs when determining full cost, including but not limited to personnel costs, overhead, utilities, rents, management and supervisory costs, and research." The methodology did not consider rent costs for the space occupied by the TWD Cost Center, which the Department funds from its base appropriation. Further, the proposed methodology did not factor in utilities costs. An A/EX/WCF official stated that rent and utilities expenses total approximately \$878,000 annually.

Additionally, according to GAO,²⁴ weaknesses in a fee-setting process include inadequate attention to growing reserve balances (that is, retained funds). However, the proposed methodology did not include an assessment of the impact of the TWD Cost Center's retained funds. As previously mentioned, the TWD Cost Center had \$25.7 million in retained funds at the end of FY 2014. While some of those funds were needed to upgrade certain equipment,²⁵ to ensure a reasonable fee structure was established, the methodology should have considered the needed upgrades as well as the retained earnings.

Recommendation 1: OIG recommends that the Bureau of Administration, in coordination with the Bureau of Information Resource Management, develop and implement a formal policy identifying the roles and responsibilities each bureau has in the fee-setting process. This policy should clearly identify which bureau has the authority for authorizing the fee amounts for the Telephone, Wireless, and Data Cost Center.

Bureau of Administration Response: The Bureau of Administration concurred with the recommendation, stating that it will "work with IRM to develop a Memorandum of Understanding that outlines the roles and responsibilities of each office."

²³ GAO, *Federal User Fees: A Design Guide* (GAO-08-386SP, May 2008).

²⁴ GAO, *Interagency Contracting: Improvements Needed in Setting Fee Rates for Selected Programs* (GAO-11-784, September 2011).

²⁵ According to TWD Cost Center officials and a draft of the FY 2013 through FY 2017 refresh schedule, technical refreshes of voice and data equipment cost approximately \$14 million to \$16 million a year.

OIG Reply: OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with IRM, has developed and implemented a formal policy identifying the roles and responsibilities each bureau has in the fee-setting process.

Recommendation 2: OIG recommends that the Bureau of Administration, in coordination with the Bureau of Information Resource Management, reassess the fee amount for each of the services provided by the Telephone, Wireless, and Data Cost Center. The methodology used when reassessing the fees should consider all relevant factors, including all expenses that should be supported by Cost Center revenue and retained funds in excess of scheduled capital needs (that is, technical refreshes). The fee-setting process should also ensure that fees are established for all types of services provided to customers, including data port access without operational support. The results of the reassessment should be made available to customers. The Cost Center should maintain supporting documentation of the reassessment that supports the fees.

Bureau of Administration Response: The Bureau of Administration concurred with the recommendation, stating that the TWD fee structure should be formally reassessed and “will work with IRM to update the assessment” and make the results of the study available to customers.

OIG Reply: OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with IRM, has reassessed the fee amount for each of the services provided by the TWD Cost Center and made the results available to customers.

Recommendation 3: OIG recommends that once the Telephone, Wireless, and Data Cost Center services fees are reassessed (Recommendation 2), the Bureau of Administration, in coordination with the Bureau of Information Resource Management, implement the new fee structure, to include formally notifying customers of the new fees.

Bureau of Administration Response: The Bureau of Administration concurred with the recommendation, stating that it will “work with IRM to implement the results of the fee assessment and notify customers of the new fee structure.”

OIG Reply: OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with IRM, has implemented the new fee structure for the TWD Cost Center.

Recommendation 4: OIG recommends that the Bureau of Administration, in coordination with the Bureau of Information Resource Management, develop a policy that details how often the Telephone, Wireless, and Data Cost Center's fees will be formally reassessed and how documentation of the assessment will be maintained.

Bureau of Administration Response: The Bureau of Administration concurred with the recommendation, stating that the details of the policy will be outlined in a Memorandum of Understanding.

OIG Reply: OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration, in coordination with IRM, has developed a policy that details how often the TWD Cost Center's fees will be formally reassessed and how documentation of the assessment will be maintained.

Services Were Provided to Bureaus That Were Not Charged

Another cause of the issues identified with the TWD Cost Center's financial results was that Kearney identified instances where the TWD Cost Center provided services to bureaus at no charge. The TWD Cost Center had a responsibility to collect "payments . . . for supplies and services at rates which will approximate the expense of operations."²⁶ All domestic bureaus and offices access E-Net through data ports. According to TWD Cost Center records, in FY 2013 the TWD Cost Center provided E-Net access through approximately 38,000²⁷ data ports. However, according to TWD Cost Center officials, two bureaus and one office—the Bureaus of Consular Affairs and Diplomatic Security and the Office of the Secretary—were not charged for approximately 7,000 data ports (18 percent of the total data ports) used for E-Net access. According to TWD Cost Center officials, the TWD Cost Center had not entered these 7,000 data ports into NetPlus because the data ports were installed before the TWD Cost Center assumed responsibility for E-Net access and the TWD Cost Center did not have an accurate inventory of the data ports used by these three organizations. Without having an accurate inventory of data ports used, TWD Cost Center personnel were unable to determine the correct fees to charge.

Further, when IT support services were consolidated under the TWD Cost Center, the Bureaus of Consular Affairs and Diplomatic Security and the Office of the Secretary did not elect to use TWD Cost Center IT support, which includes operational and maintenance support for the data ports, and instead chose to continue to use their existing IT support structure. The TWD Cost Center fees for E-Net access include the costs of access as well as operations and maintenance support. The TWD Cost Center does not have a method to charge a customer only for the cost of providing connectivity; therefore, it did not charge the Bureaus of Consular Affairs and

²⁶ 22 U.S.C. § 2684, "Capital Fund for Department of State to centralize reproduction, editorial, data processing, audiovisual and other services; maximum amount; operation of fund."

²⁷ The 38,000 data ports reflect the total number of data ports for which the TWD Cost Center is paying external vendors.

Diplomatic Security and the Office of the Secretary for E-Net access, even though these organizations were accessing E-Net through connectivity being paid for by the TWD Cost Center.²⁸ In its response to the draft report, IRM stated that the TWD Cost Center also does not have authority to charge these three organizations for the cost of providing connectivity. IRM stated that these three organizations were “former FreeNet locations” and that therefore TWD was unable to charge them.

Additionally, the TWD Cost Center was sometimes unable to charge for services because of inaccurate data in NetPlus. The TWD Cost Center relies on NetPlus data to prepare accurate customer invoices, and so, inaccurate data means that customers were not always charged for services. The external contractors that perform services on behalf of the TWD Cost Center provide vendor invoices to the TWD Cost Center that identify services by asset information number. However, the asset information numbers used by the external vendors did not always match asset information numbers in NetPlus. TWD Cost Center customer service officials manually enter asset information into NetPlus when the initial estimate is developed. However, sometimes the information was not entered accurately. For example, some asset numbers may have included dashes, spaces, or hyphens that were not correctly input into NetPlus. In other instances, Kearney found that external vendors might not always notify the TWD Cost Center when the vendors modify an asset number after an estimate is provided to a customer. Therefore, TWD Cost Center officials are not aware that data in NetPlus needs to be updated.

If an external vendor invoice contains asset information that does not match the asset information in NetPlus, IRM/BMP/SPO/FMD/WCF personnel cannot identify the asset in NetPlus and bill the correct customer. When this occurs, IRM/BMP/SPO/FMD/WCF assigns the amounts to “placeholder accounts” in NetPlus, pending research, meaning that these costs are not charged to a customer, even though the TWD Cost Center is paying for those services. TWD Cost Center customer service personnel research discrepancies in an effort to bill TWD Cost Center customers for all charges. In June 2014, IRM/BMP/SPO/FMD/WCF implemented a new monthly process to improve the TWD Cost Center’s ability to research the discrepancies more effectively and to highlight information on outstanding items. Since the new process was implemented, the TWD Cost Center had decreased the backlog of unidentified costs from \$959,000 in October 2013 to \$288,000 in September 2014.

Recommendation 5: OIG recommends that the Bureau of Information Resource Management perform a complete inventory of data ports in use by the Bureau of Consular Affairs, the Bureau of Diplomatic Security, and the Office of the Secretary.

IRM Response: IRM concurred with the recommendation, stating that it will complete an inventory of data ports in use by the Bureau of Consular Affairs, the Bureau of Diplomatic Security, and the Office of the Secretary.

²⁸ Kearney was unable to quantify the impact to other customers of this situation because the TWD Cost Center was unable to provide an estimate of the cost of only providing connectivity.

OIG Reply: OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that IRM completed an inventory of data ports in use by the Bureau of Consular Affairs, the Bureau of Diplomatic Security, and the Office of the Secretary.

Recommendation 6: OIG recommends that the Bureau of Information Resource Management develop and implement a quality control strategy to identify and correct erroneous asset information in its NetPlus Telecommunications System.

IRM Response: IRM concurred with the recommendation, stating that it is working to complete a draft policy outlining a quality control that will include standard operating procedures for all data entry users of the system.

OIG Reply: OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that IRM developed and implemented a quality control strategy to identify and correct erroneous asset information in its NetPlus Telecommunications System.

Customer Charges Were Excessive

Although the TWD Cost Center had generally been operating at a profit from FY 2010 to FY 2014, those reports do not reflect a complete picture of the TWD Cost Center's financial results. Therefore, the TWD Cost Center did not have a true understanding of its financial position and could not establish fees in a manner that covered, but did not greatly exceed, the total cost of operations. Additionally, without accurate and complete data in NetPlus, the TWD Cost Center is at risk for making uninformed decisions about such things as performing system refreshes or making large purchases to replace capital equipment. Further, because the TWD Cost Center could not support the methodology used to establish the fees charged during FYs 2010-2014, it could not be sure that overhead costs were included or were allocated equitably among customers. Finally, without an in-depth understanding and analysis of the revenues and expenses related to wireless services, the TWD Cost Center was unable to estimate the impact of wireless services transitioning to the MRA Cost Center in FY 2014. Moreover, without an effective fee-setting methodology, the means to control costs, account for activities, and encourage efficiency for users and suppliers of services is negatively impacted.

Kearney concluded that the TWD Cost Center was overcharging its customers.²⁹ Because the TWD Cost Center has not updated its fees since wireless services transitioned to the MRA Cost Center, customers are potentially paying the TWD Cost Center for services that they no longer receive. Further, without accurate asset information in NetPlus, the TWD Cost Center is having customers cover the costs of certain services being provided to other customers without charge.

²⁹ Kearney was unable to estimate the excess charges because the TWD Cost Center did not have documentation to support the calculation of its fees.

Such practices risk noncompliance with Federal appropriations laws, such as the Antideficiency Act.

In addition, without an accurate and complete understanding of services being used by customers, the TWD Cost Center could potentially pay vendors for services that are no longer in use. For example, according to a TWD Cost Center official, the TWD Cost Center was paying a vendor for circuits that were not being used for approximately 10 years before the TWD Cost Center realized the circuits should be disconnected.

Overall, without an effective process to charge and collect fees for services rendered, revenue may not be available to cover operating costs and sustain operations in the future.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration, in coordination with the Bureau of Information Resource Management, develop and implement a formal policy identifying the roles and responsibilities each bureau has in the fee-setting process. This policy should clearly identify which bureau has the authority for authorizing the fee amounts for the Telephone, Wireless, and Data Cost Center.

Recommendation 2: OIG recommends that the Bureau of Administration, in coordination with the Bureau of Information Resource Management, reassess the fee amount for each of the services provided by the Telephone, Wireless, and Data Cost Center. The methodology used when reassessing the fees should consider all relevant factors, including all expenses that should be supported by Cost Center revenue and retained funds in excess of scheduled capital needs (that is, technical refreshes). The fee-setting process should also ensure that fees are established for all types of services provided to customers, including data port access without operational support. The results of the reassessment should be made available to customers. The Cost Center should maintain supporting documentation of the reassessment that supports the fees.

Recommendation 3: OIG recommends that once the Telephone, Wireless, and Data Cost Center services fees are reassessed (Recommendation 2), the Bureau of Administration, in coordination with the Bureau of Information Resource Management, implement the new fee structure, to include formally notifying customers of the new fees.

Recommendation 4: OIG recommends that the Bureau of Administration, in coordination with the Bureau of Information Resource Management, develop a policy that details how often the Telephone, Wireless, and Data Cost Center's fees will be formally reassessed and how documentation of the assessment will be maintained.

Recommendation 5: OIG recommends that the Bureau of Information Resource Management perform a complete inventory of data ports in use by the Bureau of Consular Affairs, the Bureau of Diplomatic Security, and the Office of the Secretary.

Recommendation 6: OIG recommends that the Bureau of Information Resource Management develop and implement a quality control strategy to identify and correct erroneous asset information in its NetPlus Telecommunications System.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The objective of this audit was to determine whether the fees collected for the Working Capital Fund's (WCF) Telephone, Wireless, and Data Cost Center (TWD Cost Center) were sufficient¹ to cover all operating costs required to sustain operations for all activities. An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit.

Kearney conducted fieldwork for this performance audit from June to November 2015 in the Washington, DC, metropolitan area. All audit work was performed in accordance with performance audit requirements in the Government Accountability Office's (GAO) *Government Auditing Standards*, 2011 revision. These standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit evidence.

To obtain background information, Kearney researched and reviewed the Department of State's (Department) Foreign Affairs Handbook and Foreign Affairs Manual, the United States Code, Principles of Federal Appropriations Law, the Statements of Federal Financial Accounting Standards, prior OIG and GAO reports, and information available on the Department's intranet. Kearney obtained the most recent version of the Department's General Services Officer Guidelines, issued in December 2014, which outlined the TWD Cost Center's services and pricing structure.

Kearney met with TWD Cost Center personnel to gain an understanding of the TWD Cost Center's operations, including services provided to customers, activities covered by the funds collected from customers, financial and information technology systems used, fee-setting methodology, and operational and financial processes. Kearney met with officials from the Bureau of Administration, Office of the Executive Director, Working Capital Fund Division (A/EX/WCF), to gain an understanding of their role in TWD Cost Center management. Additionally, Kearney met with a contractor who analyzes the TWD Cost Center's operational and financial data and processes.

In order to draw conclusions regarding the sufficiency of the TWD Cost Center's fees to cover all operating costs required to sustain operations, Kearney attempted to obtain a complete and accurate picture of the financial results and assumptions used to determine the fee structure established in FY 2005 that was in use during FYs 2010-2014. As reported in Finding A of this report, Kearney was unable to obtain sufficient documentation to support the fees charged during FYs 2010-2014 or the cost allocation methodology. However, TWD Cost Center officials provided a cost model proposal, created in FY 2013, which included a cost assessment and

¹ In consideration of the WCF's mandate to be a not-for-profit revolving fund, the term "sufficient" is intended to mean effectively achieving a break-even position.

proposed updates to the TWD Cost Center fees. While the FY 2013 proposal was not accepted and had no impact on the fee structure, Kearney reviewed the supporting documentation to gain an understanding of the costs associated with the TWD Cost Center's operations.

Prior OIG Reports

In FY 2013, OIG reported² several issues with two Department WCF cost centers. Specifically, the audit identified one cost center that collected fees in excess of the amount needed to cover the costs to sustain operations and a separate cost center that had not collected sufficient fees to cover its costs. In a second audit report,³ OIG identified another WCF cost center that had operated at a profit and had not reassessed its procurement fee since it had been implemented.

Use of Computer-Processed Data

Throughout the audit, the team used computer-processed data from the Department. Kearney obtained TWD Cost Center revenue and expense detail from the Global Financial Management System's (GFMS) Data Warehouse⁴ for the period covering FY 2010 through FY 2014. Kearney performed tests of controls and substantive testing of the information obtained from GFMS during the audit to assess the reliability of the data. In addition to performing tests on the reliability of the data, Kearney also relied on the work performed during the annual audit of the Department's financial statements. GFMS is used to prepare the annual financial statements, which are audited. Kearney determined, based on how the data would be used in this report, the assurances provided by the annual financial statement audit and procedures performed during this audit that the data used was sufficiently reliable.

Kearney also used computer-processed data from A/EX/WCF's Fund\$ Tracker⁵ system. This system provides details of cost center expenses and revenues and calculates the carry forward balance for the cost center. Kearney reconciled the data from FY 2010 to FY 2014 for the TWD Cost Center from Fund\$ Tracker to GFMS data. Based on the results of the reconciliation, Kearney determined that the Fund\$ Tracker data was sufficiently reliable for Kearney's use.

Work Related to Internal Controls

Kearney divided the overall audit objective into the following three sub-objectives:

- Whether the TWD Cost Center's revenue from fee collection was generally sufficient to cover the cost of providing services.

² OIG, *Audit of Selected Working Capital Fund Cost Center Financial Results* (AUD-FM-13-36, September 2013).

³ OIG, *Audit of Department of State Application of the Procurement Fee to Accomplish Key Goals of Procurement Services* (AUD-FM-13-29, May 2013).

⁴ GFMS Data Warehouse is a database tool that is used to create reports from the Department's financial records. All transactions recorded in the Department's GFMS are stored in the Data Warehouse and can be accessed, queried, downloaded, and analyzed.

⁵ Fund\$ Tracker is a web-based application designed and used by A/EX/WCF to create budgets and manage allotments, obligations, expenses, and revenues for each cost center.

- Whether the fee-setting methodology was sufficient.
- Whether there was the financial impact of flaws noted in the fee setting methodology.

Based on the information obtained during preliminary audit procedures, Kearney performed a risk assessment that identified audit risks within each sub-objective and controls in place to address those risks.

Where key controls were identified, Kearney reviewed documentation and performed procedures to assess the design of the controls. Where controls were found to be properly designed, Kearney performed procedures to test the operating effectiveness of the controls. Based upon the assessed level of risk of each audit sub-objective and the results of control testing, Kearney designed procedures that would enable Kearney to obtain sufficient and appropriate evidence to conclude upon the audit sub-objective. In certain instances, these procedures required sampling (see the Detailed Sampling Methodology section for additional information). Any significant internal control deficiencies noted during the audit are reported in the Audit Results section of this report.

Detailed Sampling Methodology

Kearney's sampling objective was to determine whether TWD Cost Center's financial data was reliable and sufficient to provide a complete and accurate representation of the TWD Cost Center's activities from FY 2010 to FY 2014. Kearney obtained a universe of TWD Cost Center revenue and expenditure data from GFMS Data Warehouse.

Selection of Revenue Sample

From the universe of FY 2010 through FY 2014 TWD Cost Center revenue transactions, Kearney excluded transactions that did not impact the financial position of the TWD Cost Center or were determined to be reasonable exclusions based on GFMS system logic and information gathered by the client.⁶ As shown in Table A.1, the exclusions from the universe of TWD Cost Center revenues totaled approximately \$7,000,000, which resulted in a \$440,800,000 universe subject to sampling.

⁶ Specifically, Kearney excluded transactions that were reversed or canceled by other transactions, transactions recorded for zero dollars, and transactions that decreased revenue. Kearney reviewed the excluded transactions, ensured the balances were reasonable, and did not consider additional testwork on the excluded transactions.

Table A.1: Revenue Sampling Universe

	Number of Transactions	Revenue Amount (in millions)
TWD Cost Center Revenue Transactions	36,790	\$433.8
Less: Exclusions	1,867	(\$7.0)
Universe Subject to Sampling	34,923	\$440.8*

* The majority of the excluded revenue transactions were for negative amounts, which represented reductions to the total revenue universe amount. As a result, the total amount of revenue subject to sampling increased after exclusions.

Source: Prepared by Kearney based upon transactions excluded from the identified revenue universe.

From the universe of TWD Cost Center revenue transactions subject to sampling, Kearney utilized IDEA Data Analysis Software (IDEA®)⁷ to perform monetary unit sampling (MUS).⁸ Kearney selected a sample to achieve a confidence level of 95 percent using a tolerable error of 7 percent and expected misstatement of .50 percent. Based on these parameters, IDEA randomly selected a sample of 53 transactions, which included 8 high value samples.⁹ Table A.2 summarizes the number and dollar values of the sampled transactions.

Table A.2: Revenue Sampling Summary

	Number of Transactions	Revenue Amount (in millions) ^a
MUS Sample	45	\$10.2
MUS High Value Sample ^b	8	20.3
Total Sampled	53	\$30.4

^a Some numbers in this table may not add because of rounding.

^b Based on the universe subject to sampling, IDEA selected transactions recorded for \$2,000,000 and above as the MUS high value samples. All eight transactions meeting and exceeding the high value threshold were selected.

Source: Prepared by Kearney based upon revenue transactions selected for sampling.

⁷ IDEA is a software tool that automates the process for selecting and analyzing samples. Based upon the parameters input by the user, IDEA will select a sample and aid in evaluating the results.

⁸ MUS is a statistical sampling technique used to select a sample based on the proportionate unit size of the sample to the overall population. For purposes of this audit, the unit is the dollar value of the transactions. This means that every dollar in the population has an equal chance of being selected. If a particular dollar unit is selected, the entire transaction that is associated to the dollar unit will be selected for testing. MUS determines the number of samples required to obtain the planned level of accuracy, precision, or confidence level, and determines the unit intervals necessary to generate the total number of samples needed for testing. Misstatements, whole or partial, in the sample population are projected over the population based on the proportion of the misstatement in the selected sample. This sampling technique is used when overstatements or low misstatements are expected in the population.

⁹ Because every dollar and associated transaction has an equal chance of being selected in MUS sampling, MUS allows for the selection of high value samples. IDEA splits the universe subject to sampling into two sub universes based on a high value threshold, which IDEA calculates based on an analysis of the value of transactions in the universe subject to sampling (the auditor also has the ability to manually input this threshold). IDEA then randomly selects samples from both sub universes according to the sampling parameters set by the auditor. The high value samples allow the auditor to test samples representative of the entire population while also guaranteeing the selection of significant, high value transactions.

Kearney obtained supporting documentation, such as Telecommunication Service Request forms, for each sampled revenue transaction. Kearney incorporated its conclusions based on its testing in the Audit Results section of this report.

Selection of Expense Sample

From the universe of FY 2010 through FY 2014 TWD Cost Center expense transactions, Kearney also excluded a number of transactions that either did not impact the financial position of the TWD Cost Center or were determined to be reasonable exclusions based on GFMS system logic and information gathered by the client.¹⁰ As shown in Table A.3, the exclusions from the universe of TWD Cost Center expenses totaled approximately \$11,600,000, which resulted in a \$409,000,000 universe subject to sampling.

Table A.3: Expenditure Sampling Universe

	Number of Transactions	Expense Amount (in millions) ^a
TWD Cost Center Expense Universe	27,883	\$397.5
Less: Exclusions	5,813	(\$11.6)
Universe Subject to Sampling	22,070	\$409.0^b

^a Some numbers in this table may not add because of rounding.

^b The majority of the excluded expense transactions were for negative amounts, which represented reductions to the total expense universe amount. As a result, the total amount of expenses subject to sampling increased after exclusions.

Source: Prepared by Kearney based upon GFMS Data Warehouse General Ledger Account Activity Extract report.

From the universe of TWD Cost Center expense transactions subject to sampling, Kearney used IDEA to perform MUS sampling. Kearney selected a sample to achieve a confidence level of 95 percent using a tolerable error of 7 percent and expected misstatement of .50 percent. Based on these parameters, IDEA randomly selected a sample of 45 transactions, which included 7 high value samples. Table A.4 summarizes the number and dollar values of the sampled transactions.

¹⁰ Specifically, Kearney excluded transactions that were recorded for zero dollars, transactions decreasing expenses, and payroll-related salary and benefit accruals, as well as all transactions that were reversed or canceled by other transactions. Kearney reviewed the excluded transactions and determined \$10.6 million of the total exclusion was related to a journal voucher reversal of an FY 2009 accrual, which was recorded outside of the in-scope period. As a result, Kearney determined the total excluded amount was reasonable and did not consider additional testwork.

Table A.4: Expenditure Sampling Summary

	Number of Transactions	Expense Amount ^a (in millions)
MUS Sample	38	\$38.5
MUS High Value Sample ^b	7	89.5
Total Sampled	45	\$128.0

^a Some numbers in this table may not add because of rounding.

^b Based on the universe subject to sampling, IDEA selected transactions recorded for \$8,521,594.98 and above as the MUS high value samples. All seven transactions meeting and exceeding the high value threshold were selected.

Source: Prepared by Kearney based upon GFMS Data Warehouse General Ledger Account Activity Extract report.

Kearney attempted to obtain supporting documentation, such as an invoice, for each sampled expense transaction; however, the TWD Cost Center was unable to provide support for 35 of the 45 samples prior to the end of audit fieldwork. Although Kearney was unable to obtain supporting documentation for 35 of the 45 samples, this did not impact the results of the audit. As documented in the Audit Results section, Kearney determined that the TWD Cost Center did not have a documented fee-setting methodology. As a result, Kearney could not assess the fee-setting methodology. Therefore, the expenditure data was not needed to complete the audit work.

APPENDIX B: BUREAU OF INFORMATION RESOURCE MANAGEMENT RESPONSE



United States Department of State

Washington, D.C. 20520

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February 26, 2016

**INFORMATION MEMO FOR ASSISTANT INSPECTOR GENERAL
BROWN (OIG/AUD)**

FROM: IRM/CIO – Frontis B. Wiggins, Acting 

SUBJECT: IRM Response to Draft Report “Audit of the Financial Results of the Telephone, Wireless, and Data Cost Center”

Thank you for the opportunity to respond to the aforementioned report. IRM concurs with recommendations five and six for which we have the lead. However, we ask that the OIG consider adding more context to certain sections of the report. The first is the “What Was Found” section of the report. We request that this section be expanded so it is clear to the reader that the revenue overruns for FY 2010 to FY 2014 was over a five-year period and totaled six percent of the total revenue for the time period in question, as noted on page six of this report. In addition, in FY 2015, revenue was \$95.25M, total spending was \$94M, and carryover was \$1.25M – a data point outside the scope of this audit, but forward progress nonetheless. Other requested changes and our responses to the recommendations are attached.

IRM will continue to work with the Bureau of Administration (A) to strengthen our internal processes and work with A on the recommendations where they have the lead. If you have any questions concerning these responses, please coordinate with Jameela Akbari, Senior Management Advisor, at Redacted (b) (6)@state.gov or 202-634-Redacted (b) (6)

Attachment:

Tab 1 – IRM Response to the Draft Report

Tab 2 – ENET Schedule

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February 25, 2016

Tab 1

Audit of the Financial Results of the Telephone, Wireless, and Data Cost Center
(Draft Report)
IRM Response

IRM appreciates the opportunity to review the aforementioned draft report and requests that the OIG add more context to the sections mentioned below.

1. Page 7, paragraph 2, “The TWD Cost Center’s goal is to refresh all of the Cost Center’s equipment every 5 years.” Actually, TWD updates an annual expenditure plan with five year projections to refresh only those areas on the network as warranted. These projections are updated annually rather than a static five-year plan that is only updated once every five years (see Tab 2). IRM requests the OIG to rephrase the quoted sentence to:

“The TWD Costs Center’s goal is to refresh areas of the network as warranted.”

2. Page 7, paragraph 2, “TWD Cost Center officials stated that, in FY 2015, the TWD Cost Center performed all planned refreshes.” Actually, TWD Management directed and scheduled contract support staff to complete planned refreshes. There are still several prior year planned projects in various stages of completion, but not yet closed out. IRM requests the OIG to rephrase the quoted sentence to:

“..., in FY 2015, the TWD Cost Center had prior year planned projects in various stages of completion.”

3. Page 10, paragraph 2, “The TWD Cost Center does not have a method to charge a customer only for the cost of providing connectivity, and, therefore, it did not charge the Bureaus of Consular Affairs and Diplomatic Security and the Office of the Secretary for E-Net access even though these organizations were accessing E-Net through connectivity being paid for by

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February 25, 2016

the TWD Cost Center.” Actually, TWD did not charge these nonconsolidated bureaus because TWD did not have the authority to charge them, not because of lack of a charge-back model. This includes all of the former FreeNet locations that were formally supported by IRM/OPS/ITI/SI/DTS. IRM requests the OIG to rephrase the quoted sentence to:

“The TWD Cost Center did not have the authority to charge non-consolidated bureaus, so could not charge these customers for the cost of providing connectivity.”

Recommendation 5: OIG recommends that the Bureau of Information Resource Management perform a complete inventory of data ports in use by the Bureau of Consular Affairs, the Bureau of Diplomatic Security, and the Office of the Secretary.

Management Response (February 2016): IRM concurs with recommendation five and will inform the Bureau of Administration on planned actions. IRM has plans underway to complete the inventory of data ports in use by the Bureau of Consular Affairs, the Bureau of Diplomatic Security, and the Office of the Secretary.

Recommendation 6: OIG recommends that the Bureau of Information Resource Management develop and implement a quality control strategy to identify and correct erroneous asset information in its NetPlus Telecommunications System.

Management Response (February 2016): IRM concurs with this recommendation and will inform the Bureau of Administration on planned actions. IRM’s WCF is working to complete a draft policy document outlining a quality control. This includes standard operating procedures for all data entry users of the system.

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APPENDIX C: BUREAU OF ADMINISTRATION RESPONSE



United States Department of State

Washington, D.C. 20520

February 24, 2016

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MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/EX – Janice DeGarmo, Acting Executive Director 

SUBJECT: Audit of the Financial Results of the Telephone, Wireless, and Data Cost Center

Thank you for the opportunity to comment on the subject draft audit report. Overall, A/EX/WCF agrees with the intent of the recommendations and will work with IRM on implementation. However, we have identified some content that may be misinterpreted without additional information, as well as what we believe to be a few inaccuracies. We present our comments and suggestions after our responses to the specific recommendations. Please consider these comments as you finalize this report.

Mr. Glenn Hagmann of A/EX/WCF is the point of contact for this report and can be reached at 202-485-[Redacted] (b) (6)

Recommendation 1: OIG recommends that the Bureau of Administration, in coordination with the Bureau of Information Resource Management, develop and implement a formal policy identifying the roles and responsibilities each bureau has in the fee setting process. This policy should clearly identify which bureau has the authority for authorizing the fee amounts for the Telephone, Wireless, and Data Cost Center.

Management Response (2/25/16): A/EX/WCF agrees with the recommendation and will work with IRM to develop a Memorandum of Understanding that outlines the roles and responsibilities of each office in the fee setting process.

Recommendation 2: OIG recommends that the Bureau of Administration, in coordination with the Bureau of Information Resource Management, reassess the fee amount for each of the services provided by the Telephone, Wireless, and Data Cost Center. The methodology used when reassessing the fees should consider all

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relevant factors, including all expenses that should be supported by Cost Center revenue and retained funds in excess of scheduled capital needs (that is, technical refreshes). The fee setting process should also ensure that fees are established for all types of services provided to customers, including data port access without operational support. The results of the reassessment should be made available to customers. The Cost Center should maintain supporting documentation of the reassessment that supports the fees.

Management Response (2/25/16): A/EX/WCF agrees that the TWD fee structure should be formally reassessed and will work with IRM to update the assessment that was completed in 2013. The results of this study will be made available to the customers via the WCF SharePoint site.

Recommendation 3: OIG recommends that once the Telephone, Wireless, and Data Cost Center services fees are reassessed (Recommendation 2), the Bureau of Administration, in coordination with the Bureau of Information Resource Management, implement the new fee structure, to include formally notifying customers of the new fees.

Management Response (2/25/16): A/EX/WCF agrees with the recommendation and will work with IRM to implement the results of the fee assessment and notify customers of the new fee structure.

Recommendation 4: OIG recommends that the Bureau of Administration, in coordination with the Bureau of Information Resource Management, develop a policy that details how often the Telephone, Wireless, and Data Cost Center's fees will be formally reassessed and how documentation of the assessment will be maintained.

Management Response (2/25/16): A/EX/WCF agrees with the recommendation. These details will be outlined in the Memorandum of Understanding referenced in the response to Recommendation 1.

SUGGESTIONS TO IMPROVE THE AUDIT:

1. 2nd paragraph of Summary page, last sentence. All TWD costs associated with supporting the wireless program (i.e. 4 contractor positions & the wireless contract carriers) were identified and moved to MRA at the time of the restructuring. More specifically, the Vanguard costs associated with

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these 4 contractor positions moved from TWD to MRA as well at the AT&T, Verizon, and Sprint contracts.

2. Last paragraph of Summary page, last sentence. It is unclear how generating an average annual surplus of 6% (i.e. \$25 million over 5 years) can risk non-compliance with the Antideficiency Act. The surplus was designed to be used for infrastructure upgrade projects and system modernizations. Unfortunately, the TWD contractor did not have the proper staffing to accomplish these projects during this period. TWD conservatively estimates \$10 – \$12 million is needed in immediate remediation efforts and is currently using other contract vehicles to address these needs.
3. Page 5, Finding A: - bottom paragraph. The issues raised in points 1 and 2 above are applicable to this paragraph. This paragraph does not appear to consider that there are more costs associated with effective management of TWD than yearly operational costs. It is standard practice in WCF cost centers that require infrastructure upgrades, to maintain a reasonable reserve, or retained earnings in order to maintain an up-to-date infrastructure. If the contractors had been staffed appropriately to perform the planned infrastructure upgrades, TWD would not currently have \$25 million in carryforward. There is still a need to perform system upgrades, and these resources will be used for that purpose. TWD is beginning to use other contractual vehicles for such upgrades. As already noted, the movement of the Wireless branch from TWD to MRA has nothing to do with the \$25 million surplus generated from 2010 – 2014 and all appropriate costs have been moved to MRA.
4. Page 7, last sentence in 2nd full paragraph prior to the section. “Fee-Setting Methodology Was Not Effective”. This sentence appears to indicate that all infrastructure upgrades have been completed – which is not accurate. While the FY15 upgrades have been completed, the upgrades planned for previous years have not been started and they still need to be completed. There is an immediate need for \$10 -\$12 million in system upgrades.
5. Page 8, 2nd paragraph. As noted before, we do not understand the relevance of moving wireless to MRA.
6. Page 9, last paragraph. As noted previously, the plan was always to use the reserve for infrastructure upgrades.

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ABBREVIATIONS

A/EX/WCF	Bureau of Administration, Office of the Executive Director, Working Capital Fund Division
GAO	Government Accountability Office
GFMS	Global Financial Management System
IRM	Bureau of Information Resource Management
IRM/BMP/SPO/FMD/WCF	Bureau of Information Resource Management, Deputy Chief Information Officer for Business Management and Planning, Strategic Planning Office, Financial Management Division, Working Capital Fund Branch
MRA Cost Center	Mobile and Remote Access Cost Center
MUS	monetary unit sampling
OIG	Office of Inspector General
TSR	Telecommunications Service Request
TWD	Cost Center Telephone, Wireless, and Data Cost Center
WCF	Working Capital Fund

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