



Office of Audits  
Office of Inspector General  
U.S. General Services Administration

# Great Lakes Region Network Services Division Invoicing Process Lacks Transparency

*Report Number A130011/Q/5/P15001  
February 27, 2015*



Office of Audits  
Office of Inspector General  
U.S. General Services Administration

## REPORT ABSTRACT

### OBJECTIVES

The objectives of this audit were to determine whether: (1) the Network Services Division is effectively managing its workload to ensure that telecommunications services contracts in the Great Lakes Region are administered efficiently and timely and if not, determine the impact and recommend corrective action; and (2) customers are billed at agreed-upon telecommunications services contract rates.

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### Great Lakes Region Network Services Division Invoicing Process Lacks Transparency

Report Number A130011  
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### WHAT WE FOUND

We identified the following during our audit:

Finding – Network Services Division invoices lack transparency, which limits customers' ability to identify all fees being charged.

### WHAT WE RECOMMEND

Based on our audit finding we recommend the Great Lakes Federal Acquisition Service Regional Commissioner:

1. Require the Network Services Division establish formal agreements with customer agencies that set terms and conditions, and disclose all pricing components, including the contract rates that GSA pays to vendors.
2. Implement a policy that requires full disclosure of all administrative surcharges and service-related costs by clearly itemizing customer invoices.

### MANAGEMENT COMMENTS

In its comments, management agreed with our finding, supports our recommendations, and has already begun taking steps to address our recommendations (see **Appendix B**).




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DATE: February 27, 2015

TO: Kim Brown  
Regional Commissioner, Federal Acquisition Service (5Q)

FROM: Michael Lamonica   
Audit Manager, Great Lakes Region Audit Office (JA-5)

SUBJECT: Great Lakes Region Network Services Division Invoicing Process  
Lacks Transparency  
*Report Number A130011/Q/5/P15001*

This report presents the results of our audit of the Great Lakes Region Network Services Division telecommunication services contracts. Our finding and recommendations are summarized in the Report Abstract. Instructions regarding the audit resolution process can be found in the email that transmitted this report.

Your written comments to the draft report are included in **Appendix B** of this report.

If you have any questions regarding this report, please contact me or any member of the audit team at the following:

Michael Lamonica	Audit Manager	<a href="mailto:michael.lamonica@gsaig.gov">michael.lamonica@gsaig.gov</a>	(312)353-8481
Robert Lange	Auditor-In-Charge	<a href="mailto:robert.lange@gsaig.gov">robert.lange@gsaig.gov</a>	(312)692-2222

On behalf of the audit team, I would like to thank you and your staff for your assistance during this audit.

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## **Introduction**

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The Great Lakes Region's Federal Acquisition Service provides telecommunications services contracts for federal agencies in Illinois, Ohio, Michigan, Indiana, Wisconsin, and Minnesota. These contracts provide federal government users continuity of services and a measure of price stability for local telecommunications services. The Network Services Division (Network Services) assists customer agencies in obtaining comprehensive telecommunications services at the lowest aggregate prices. The Great Lakes Region Network Services consists of a director, two team managers, information technology specialists, and telecommunication specialists responsible for assisting customer agencies in defining requirements, identifying solutions, ordering services, and managing telecommunications services including billing operations.

In the monthly billing process, telecommunication vendors bill GSA through the Financial Services Center. GSA pays the telecommunication vendors directly, then Network Services seeks reimbursement by billing its customers based on the vendors' rates plus fees. Revenue for the Great Lakes Region Network Services was about \$15.5 million in fiscal year 2014.

### **Objectives**

The objectives of our audit were to determine whether: (1) the Network Services Division is effectively managing its workload to ensure that telecommunications services contracts in the Great Lakes Region are administered efficiently and timely and if not, determine the impact and recommend corrective action; and (2) customers are billed at agreed-upon telecommunications services contract rates.

See **Appendix A** – Purpose, Scope, and Methodology for additional details.

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## Results

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We determined that Network Services is effectively managing its workload to ensure that telecommunications services contracts in the Great Lakes Region are administered efficiently and timely. Also, customers are billed at agreed-upon telecommunications services contract rates.

However, although we did not find that Network Services was charging customer agencies incorrect rates, it should establish formal written agreements with customer agencies that set terms and conditions, including all pricing components with disclosures of vendor rates. Further, itemized customer bills should disclose the service-related cost and administrative surcharge. This would allow customers to verify the components of their bills.

### **Finding – Network Services Division invoices lack transparency, which limits customers’ ability to identify all fees being charged.**

The Great Lakes Region Network Services monthly invoices to customer agencies do not disclose the vendor’s rate, the service-related cost, or the surcharge rate. Disclosing this information would allow customer agencies to fully evaluate their telecommunication costs and services rendered.

Network Services and selected vendors have an agreement which outlines telecommunications services, such as voice, data, and internet access, and associated rates that can be offered to customer agencies. However, there is no formal agreement between Network Services and customer agencies. Rather, there is an informal agreement outlining the services to be provided and pricing. Without formal agreements that outline base and fee rates and set binding prices, customers are unable to verify the accuracy of the invoiced rates.

The rate Network Services charges its customers is based on the vendor’s rate, plus a service-related cost for selected items<sup>1</sup> and an administrative surcharge.<sup>2</sup> The service-related cost is a fixed rate per line designed to cover the operating expenses of Network Services within the Great Lakes Region. For fiscal year 2014 the service-related cost is generally between \$6.00 to \$8.40 for analog lines and direct dial trunks, depending on the location of the service and type of line. The Financial Services Center uses input from Network Services to calculate the administrative surcharge to cover Network

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<sup>1</sup> The service-related costs fee covers regional operating expenses such as personnel, office supplies, travel, and equipment. This fixed rate is determined by location and service category. Examples of service categories include analog lines, Integrated Services Digital Network pipes, and Voice over Internet Protocol. The service-related costs are added to the base vendor rate.

<sup>2</sup> The Network Services’ administrative surcharge recovers Central Office and other allocated expenses such as Executive Director, Federal Acquisition Service Information Technology Systems, Office of the Chief Financial Officer, Office of the Chief Information Officer, Office of General Counsel, rent, etc. The administrative surcharge is computed by applying the rate to the total of the base vendor rate and the service-related costs fee.

Services' overhead costs. The administrative surcharge is calculated on an annual basis per fiscal year. The Network Services' administrative surcharge rate in the Great Lakes Region for fiscal year 2014 was 26.5 percent, a reduction from a high of 39.99 percent in fiscal year 2010, as shown in *Table 1* below.

**Table 1 – Network Services' Surcharge Rates**

Fiscal Year	Surcharge Rate
2010	39.99%
2011	39.42%
2012	38.75%
2013	31.05%
2014	26.50%

Monthly invoices to customer agencies do not disclose the vendors' rates, the service-related costs, or the surcharge rates. GSA's *Open Government Plan* (Version 2.0 for fiscal years 2012-2014) seeks to establish greater collaboration among federal agencies to ensure taxpayers' money is wisely spent. Disclosing the rates, costs, and surcharges would allow customer agencies to fully evaluate their telecommunication costs and services rendered.

Several of Network Services' current business practices are inconsistent with GSA's commitment to improving transparency, including:

- Network Services does not have formal agreements with customer agencies, which would set terms and conditions and outline elements of pricing;
- Telecommunications services contracts rates that Network Services pays to vendors are not disclosed to customers; and
- Network Services does not provide its customers with itemized invoices that show the service-related cost and the administrative surcharge.

### Recommendations

We recommend the Great Lakes Federal Acquisition Service Regional Commissioner:

1. Require the Network Services Division establish formal agreements with customer agencies that set terms and conditions, and disclose all pricing components, including the contract rates that GSA pays to vendors.
2. Implement a policy that requires full disclosure of all administrative surcharges and service-related costs by clearly itemizing customer invoices.

### Management Comments

In its comments, management agreed with our finding, supports our recommendations, and will coordinate with the Office of Network Services Program as necessary to address our recommendations (see **Appendix B**).

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## ***Conclusion***

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Network Services does not have written agreements with its customers and does not provide them with itemized invoices that show billing details. This lack of transparency does not allow for the customer agencies to understand and evaluate the services they are provided for the fees they are paying.



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## ***Appendix A – Purpose, Scope, and Methodology***

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### **Purpose**

Our audit of telecommunications services contracts in the Great Lakes Region was included in the Office of Inspector General Fiscal Year 2013 Audit Plan.

### **Scope and Methodology**

To accomplish our objectives, we:

- Interviewed Network Services personnel including team managers and information technology specialists;
- Interviewed Financial Services Center personnel;
- Reviewed telecommunications services contracts including Request for Proposals, modifications, and relevant price lists;
- Analyzed monthly Financial Services discrepancy reports reconciling differences between anticipated billings and actual invoices;
- Reviewed the Telecommunications Ordering and Pricing System;
- Obtained vendor invoices to GSA for comparison to customer billed rates;
- Obtained Network Services invoices to customers for comparison to vendor invoice rates; and
- Verified customer invoices included the appropriate contract rate and surcharges.

We conducted the audit between July 2013 and May 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

### **Internal Controls**

The examination of internal controls was limited to those necessary to address the specific objectives and scope of the audit. Thus our assessment and evaluation of internal controls are structured to those issues identified in the results section of this report.

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## Appendix B – Management Comments

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U.S. General Services Administration  
Great Lakes Region

January 22, 2015

**MEMORANDUM FOR:** ADAM GOOCH  
REGIONAL INSPECTOR GENERAL FOR AUDITING  
GREAT LAKES REGION OFFICE (JA-5)

**FROM:** KIM E. BROWN  
REGIONAL COMMISSIONER, FEDERAL ACQUISITION SERVICE  
GREAT LAKES REGION (5Q)

**SUBJECT:** GREAT LAKES REGION NETWORK SERVICES DIVISION INVOICING  
PROCESS LACKS TRANSPARENCY – REPORT NUMBER A130011

Thank you for your audit efforts and the resultant draft report, Report No. A130011 - *Great Lakes Region Network Services Division Invoicing Process Lacks Transparency*.

The report provides two specific recommendations regarding the Local Telecommunications Services Program of the Network Service Division.

1. Require the Network Services Division establish formal agreements with customer agencies that set terms and conditions, and disclose all pricing components, including the contract rates that GSA pays to vendors,
2. Implement a policy that requires full disclosure of all administrative surcharges and service-related costs by clearly itemizing customer invoices

The Great Lakes Region, Federal Acquisition Services, supports these recommendations and will coordinate with the Office of Network Services Program (QTC), as necessary; given that each recommendation has nationwide impact and is therefore being addressed at the national level as an integral and important part of the Network Services 2020 (NS2020) Strategy. The NS2020 Strategy includes solutions to these recommendations; along with significant transformational changes designed to directly increase program efficiency, savings, and service (including transparency).

The solution to both recommendations shares a single common input - a replacement to the existing financial, invoicing and billing systems. The replacement system, Network Services Future Systems (NSFS), is included in the NS2020 Strategy. The breadth of the NS2020 Strategy and the time required to design, plan, procure and implement NSFS, places the full resolution to each recommendation in

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## **Appendix B – Management Comments (cont.)**

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the FY18-19 timeframe. During the interim, we propose to continue the current program practice of briefing customer agencies about our services and fees; as well as entering into formal Interagency Agreements (IA) on a case by case basis based on risk, complexity - and at the request of client agencies.

Thank you for allowing us the opportunity to comment on the draft report. If you have any questions, please do not hesitate to contact me at 312/886-8800 or [kim.brown@gsa.gov](mailto:kim.brown@gsa.gov).

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## ***Appendix C – Report Distribution***

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Regional Commissioner, FAS, Great Lakes Region (5Q)

Regional Administrator, Great Lakes Region (5A)

Commissioner, FAS (Q)

Acting Deputy Commissioner, FAS (Q1)

Chief of Staff, FAS (Q0A)

Regional Counsel, Great Lakes Region (LD5)

Director, Network Services Division, Great Lakes Region (5QTC)

Branch Chief, GAO/IG Audit Response Branch (H1C)

Audit Liaison, FAS, Great Lakes Region (5Q1)

Assistant Inspector General for Auditing (JA)

Director, Audit Planning, Policy, and Operations Staff (JAO)