



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

Limited Scope Audit – GSA Provided Cloud Computing Services at No Cost to a Government Agency

*Report Number A150122/A/R/F16001
March 22, 2016*



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

REPORT ABSTRACT

OBJECTIVE

The objective of our limited scope audit was to determine if GSA's email pilot program with the Peace Corps was appropriately executed in accordance with guidance from the Office of Management and Budget (OMB), the Federal Chief Information Officers (CIO) Council, as well as the Economy Act of 1932, and other applicable guidance and regulations.

**Real Property and
Finance Audit Office
(JA-R)
1800 F Street, NW
Room 5215
Washington, DC 20405
(202) 219-0088**

Limited Scope Audit – GSA Provided Cloud Computing Services at No Cost to a Government Agency

Report Number A150122/A/R/F16001

March 22, 2016

WHAT WE FOUND

We identified the following during our limited scope audit:

Finding – GSA improperly modeled its email pilot program as a shared service without OMB approval and augmented the Peace Corps' budget by \$24,777.

WHAT WE RECOMMEND

Based on our audit finding, we recommend that the Deputy Administrator:

1. Ensure the appropriate agreement is used to provide information technology (IT) services to other government agencies in compliance with federal policy and guidance.
2. Identify the IT shared services and IT pilot programs that GSA is offering, or will offer, to other government agencies. Align the services with guidance from the OMB shared services strategy and the Federal CIO Council's implementation guidance.
3. Establish policy to require advance senior leadership approval of IT shared services and IT pilot programs with other government agencies.
4. Ensure GSA's IT shared services and IT pilot program agreements receive advance review by GSA's Office of General Counsel.
5. Ensure that all shared services are approved by OMB prior to providing services to other agencies.
6. Ensure there is an active agreement governing both GSA's and its customers' responsibilities at all times when shared services are being provided.

MANAGEMENT COMMENTS

The Deputy Administrator concurred with the finding and recommendations. Management's written comments to the draft report are included as **Appendix B**.



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

DATE: March 22, 2016

TO: Adam Neufeld
Deputy Administrator (AD)

FROM: Sonya Panzo 
Audit Manager
Real Property and Finance Audit Office (JA-R)

SUBJECT: Limited Scope Audit – GSA Provided Cloud Computing Services at
No Cost to a Government Agency
Audit Number A150122/A/R/F16001

This report presents the results of our *Limited Scope Audit – GSA Provided Cloud Computing Services at No Cost to a Government Agency*. 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:

Sonya D. Panzo	Audit Manager	sonya.panzo@gsaig.gov	(202) 273-7333
Kyle D. Plum	Auditor-In- Charge	kyle.plum@gsaig.gov	(202) 273-5004
Reynaldo M. Gonzales	Auditor	reynaldo.gonzales@gsaig.gov	(202) 273-7327

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

Table of Contents

Introduction	1
 Results	
<i>Finding – GSA improperly modeled its email pilot program as a shared service without OMB approval and augmented the Peace Corps’ budget by \$24,777.....</i>	<i>3</i>
<i>Recommendations.....</i>	<i>6</i>
<i>Management Comments</i>	<i>6</i>
Conclusion.....	7
 Appendixes	
Appendix A – Purpose, Scope, and Methodology.....	A-1
Appendix B – Management Comments	B-1
Appendix C – Report Distribution.....	C-1

Introduction

As part of the Office of Management and Budget's (OMB) 2011 *Federal Cloud Computing Strategy*, GSA was one of the first federal government agencies to adopt a cloud-based computing environment to host its agency-wide email system and collaboration services. GSA launched its cloud computing environment agency-wide in June 2011.

As the federal government continues to move toward cloud-based information technology (IT) solutions, OMB and the Federal Chief Information Officers (CIO) Council encourage agencies to adopt shared solutions to eliminate waste and duplication across the federal IT portfolio. Shared services are provided for consumption by multiple organizations within or between federal agencies.

In May 2012, the Executive Office of the President of the United States issued its *Federal Information Technology Shared Services Strategy* to improve IT return on investment, productivity, and communications with stakeholders. To further assist agencies towards identifying and operating IT shared service solutions, the Federal CIO Council issued guidance on defining, establishing, and implementing interagency shared services.¹ This implementation guidance establishes specific steps for identifying shared services candidates, making a business case for those services, examining potential funding models, using agency agreements, and identifying key challenges in the implementation process. Both sets of guidance note the importance of agency leadership's support of shared services opportunities.

In May 2014, the Peace Corps began pursuing a cloud computing solution that would transition its legacy email and document collaboration functions to the cloud. In August 2014, the Peace Corps announced its decision to partner with GSA for cloud email services via a pilot program. In September 2014, GSA began its pilot program with the Peace Corps. Under this program, GSA provided the Peace Corps with cloud services and basic cloud computing applications, including email, calendars, document storage and management, and collaborative tools to create websites and communicate in small teams.

The original Memorandum of Understanding (MOU) between GSA and the Peace Corps cited the Economy Act of 1932 (Economy Act) as the authority enabling GSA to provide services to the Peace Corps. The Economy Act authorizes agencies to enter into agreements to obtain supplies or services from other agencies and requires payment for those supplies or services.

We began our limited scope audit in January 2015, after the Peace Corps Office of Inspector General informed us of the pilot program.

¹ *Federal Shared Services Implementation Guide*, dated April 16, 2013.

Objective

The objective of our limited scope audit was to determine if GSA's email pilot program with the Peace Corps was appropriately executed in accordance with guidance from OMB, the Federal CIO Council, as well as the Economy Act, and other applicable guidance and regulations.

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

Results

GSA's email pilot program with the Peace Corps did not comply with laws, regulations, and guidance applicable to shared services. Specifically, we found that:

- Although represented as a shared service, GSA's cloud email pilot program with the Peace Corps did not have the required OMB approval;
- As of May 19, 2015, GSA provided cloud email services to the Peace Corps for approximately 6 months without an active agreement in place; and
- In initially providing the cloud services to the Peace Corps at no cost, GSA augmented the Peace Corps' budget.

Finding – GSA improperly modeled its email pilot program as a shared service without OMB approval and augmented the Peace Corps' budget by \$24,777.

Although represented as an interagency shared service, the Peace Corps pilot program was not an OMB-approved shared service offering. Interagency shared services must be approved by OMB. GSA also used an agreement that was not designed to provide shared services and was not finalized until 3 months after services began. In addition, because the cloud email services were originally provided to the Peace Corps at no cost, GSA improperly cited the Economy Act as the authority for the services. Finally, GSA augmented the Peace Corps' budget when it provided the cloud email services at no cost.

OMB-approved interagency shared services are listed in an online catalog (Uncle Sam's List) as approved shared services offerings. The cloud email pilot program GSA used to provide services to the Peace Corps is not included among the approved IT shared services on Uncle Sam's List.

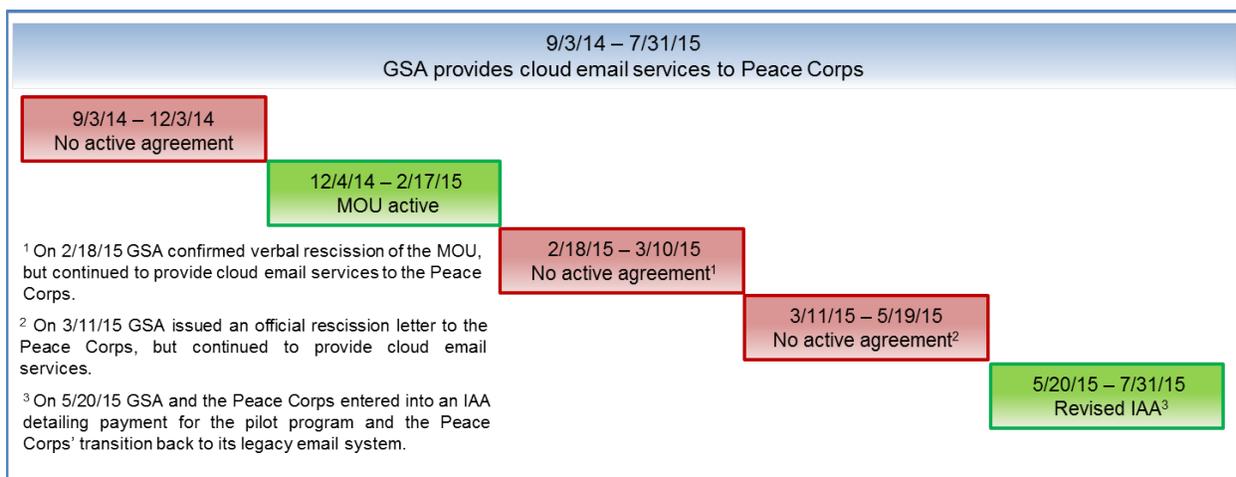
Moreover, although GSA referred to the pilot program as a shared service, its cloud computing licenses were not intended for use by another agency. The Reseller Agreement between GSA and its cloud services provider stated that GSA would not "(a) sell, resell, lease, or the functional equivalent, the Services to a third party (unless expressly authorized in this Agreement)..." GSA officials stated that the licenses and their contract terms were designed specifically for use in GSA's cloud computing environment, were specific to the needs of GSA's operations, and were not intended for use by other agencies. However, GSA provided the Peace Corps with up to 500 of GSA's cloud-based computing licenses for use during the pilot program without obtaining express authorization to do so from the cloud services provider. Despite not obtaining this express authorization, GSA management informed us that the cloud services provider worked directly with the Peace Corps in support of the pilot program. After we brought these issues to GSA's attention in February 2015, the Agency agreed that a new model must be pursued for future shared service pilot programs.

GSA also provided cloud services to the Peace Corps for approximately 6 months without a finalized agreement. GSA began providing the services on September 3,

2014, and continued providing the services until July 31, 2015. However, GSA and Peace Corps senior leadership did not approve the initial MOU until December 4, 2014; 3 months after GSA began providing the services. Furthermore, GSA's Office of General Counsel did not formally review the MOU.

In January 2015, our audit team and the Peace Corps Office of Inspector General informed GSA of our concerns with the pilot program. GSA initially defended the terms of the MOU but, after our questioning, agreed there were problems with the agreement. On February 18, 2015, GSA informed our audit team that the MOU for the cloud pilot program had been verbally rescinded. Almost 1 month later, GSA issued the official rescission letter on March 11, 2015. An Interagency Agreement (IAA) between GSA and the Peace Corps was not signed until May 20, 2015, 3 months after the verbal rescission (see *Figure 1*).

Figure 1 – Cloud Email Services Timeline



Without an active agreement, there were no established terms, including the project's scope of work, deliverables, schedule, funding responsibility, and dispute and termination handling procedures. The Peace Corps' responsibilities were also not clear. Specifically, the Peace Corps could not be held to the following duties as detailed in the MOU:

- Working with GSA on the blueprint for cloud services;
- Bringing the Peace Corps communities together and providing training for those communities;
- Monitoring the progress of the pilot program and collecting lessons learned from the participants;
- Working with GSA to develop and execute mobile device management;
- Identifying risks and risk mitigation strategies;
- Delivering training sessions;
- Governing, overseeing, and directing the pilot program; and
- Leading and coordinating audits and reviews.

Finally, the MOU provided for up to \$100,000 in cloud email services at no cost to the Peace Corps. The MOU identified a three-phase approach with GSA providing cloud services to the Peace Corps for the first two phases at no cost, despite citing the authority of the Economy Act.

The Economy Act authorizes agencies to enter into agreements to obtain supplies or services from other agencies and requires payment for those supplies or services. Federal Acquisition Regulation 17.502-2(d) addresses the payment for services acquired under the Economy Act authority, including advance payment for services, payment after supplies or services have been furnished, and payment of fees in excess of the actual costs of entering into the agreement. There is no provision allowing the servicing agency to provide services at no cost to the requesting agency. Payment is an essential element of an Economy Act transaction.

GSA began providing cloud email services to the Peace Corps in September 2014. The cloud pilot program ended in May 2015; however, the services remained active through July 31, 2015, to allow the Peace Corps to transition its employees back to its legacy email system. At that time, GSA had incurred costs of \$24,777 for the testing of the pilot program and estimated \$15,465 for extraction of Peace Corps' data and a return to its legacy email system. We discussed and monitored the payment for the pilot program with GSA throughout our limited scope audit and have determined the budget augmentation has been corrected. Specifically, after we informed GSA on January 27, 2015, of our concerns regarding the pilot program's funding, GSA took the following actions:

- On February 18, 2015, GSA informed us it would request reimbursement for approximately \$25,000 from the Peace Corps for services provided, despite the MOU's provision that these costs would be incurred by GSA;
- On May 20, 2015, GSA signed an IAA with the Peace Corps for the \$24,777 reimbursement and \$15,465 for extraction of Peace Corps' data and a return to its legacy email system, totaling \$40,242. GSA stated that its Office of General Counsel reviewed the IAA. The IAA was then approved by GSA and Peace Corps senior leadership;
- On May 27, 2015, GSA received a \$24,777 retroactive payment from the Peace Corps for the testing of the pilot program; and
- On September 15, 2015, GSA received the remaining \$15,465 payment for the extraction of the Peace Corps' data and return to its legacy email system.

While the Peace Corps pilot program has concluded, GSA continues to offer and implement IT shared services and pilot programs. GSA needs to take steps to ensure that it complies with the laws, regulations, and guidance that are applicable to shared services.

Recommendations

We recommend that the Deputy Administrator:

1. Ensure the appropriate agreement is used to provide IT services to other government agencies in compliance with federal policy and guidance.
2. Identify the IT shared services and IT pilot programs that GSA is offering, or will offer, to other government agencies. Align the services with guidance from the OMB shared services strategy and the Federal CIO Council's implementation guidance.
3. Establish policy to require advance senior leadership approval of IT shared services and IT pilot programs with other government agencies.
4. Ensure GSA's IT shared services and IT pilot program agreements receive advance review by GSA's Office of General Counsel.
5. Ensure that all shared services are approved by OMB prior to providing services to other agencies.
6. Ensure there is an active agreement governing both GSA's and its customers' responsibilities at all times when shared services are being provided.

Management Comments

In his comments, the Deputy Administrator concurred with the audit finding and recommendations (see ***Appendix B***).

Conclusion

GSA incorrectly offered its cloud email pilot program as a shared service and did not receive OMB approval for the program. GSA also provided the Peace Corps with up to 500 of GSA's own cloud-based computing licenses that were not originally intended for use by another agency.

The pilot program also lacked the terms and conditions of an active agreement for approximately 6 months. GSA provided cloud services to the Peace Corps for approximately 3 months before the original MOU was finalized on December 4, 2014. Then again, from February 18 to May 19, 2015, there was not an active agreement that identified the pilot program's scope of work, deliverables, schedule, or participant responsibilities, among other things.

In addition, GSA augmented the Peace Corps budget by providing \$24,777 in cloud services at no cost to the Peace Corps. The pilot program's original MOU did not require the Peace Corps to pay for services received despite citing the Economy Act, which requires payment for those services. As a result, GSA issued an IAA requesting reimbursement for \$24,777 in services provided and an additional \$15,465 for the extraction of the Peace Corps' data and return to its legacy email system. To date, the Peace Corps has reimbursed GSA the full \$40,242.

As GSA continues to offer and implement IT shared services and pilot programs, additional action is needed to minimize its risk. Specifically, GSA should clearly define its IT shared service offerings and ensure agreements are in place at all times when shared services are being provided.

Appendix A – Purpose, Scope, and Methodology

Purpose

We initiated a limited scope audit in response to a letter received from the Peace Corps Office of Inspector General regarding a cloud email pilot program with GSA.

Scope and Methodology

The limited scope audit included a review of the MOU and IAA between GSA and the Peace Corps for cloud email services.

To accomplish our objective, we:

- Interviewed GSA management to discuss the cloud email pilot program;
- Interviewed GSA personnel who had a background and knowledge of IT shared services;
- Obtained and analyzed documentation related to the MOU and IAA;
- Researched federal cloud initiatives, the Federal Acquisition Regulation, and the Economy Act; and
- Met with representatives from the Peace Corps Office of Inspector General to further our knowledge of the pilot program and prevent duplication of efforts.

We conducted our limited scope audit between March and April 2015 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 the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

Internal Controls

Tests of internal controls were limited to the extent necessary to address the audit objective. Related internal control issues were discussed in the context of the audit finding contained in this report.

Appendix B – Management Comments



Deputy Administrator

February 29, 2016

MEMORANDUM FOR Marisa A. Roinestad,
Associate Deputy Assistant Inspector General for Auditing
Real Property and Finance Audit Office (JA-R)

FROM: Adam Neufeld
Deputy Administrator (AD)

SUBJECT: Limited Scope Audit- GSA Provided Cloud Computing
Services at No Cost to a Government Agency
Report Number A150122

The U.S. General Services Administration (GSA) appreciates the opportunity to review and comment on the draft subject report entitled *Limited Scope Audit - GSA Provided Cloud Computing Services at No Cost to Government* (Agency Report Number A150122).

We agree with the narrative summary of the events outlined in the report, as well as the primary finding of OIG (report pages 3-5). Additionally, OIG made six recommendations (report page 6), which are summarized below. We have listed our concurrence and comments next to each recommendation.

Recommendations: OIG recommends that the Deputy Administrator:

1. Ensure the appropriate agreement is used for providing IT services to other government agencies in compliance with federal policy and guidance (***GSA concurs that the appropriate agreements will be used moving forward.***)
2. Identify the IT shared services and IT pilot programs that GSA is offering, or will offer, to other government agencies. Align the services with guidance from the OMB shared services strategy and the Federal CIO Council's implementation guidance (***GSA concurs and will identify the shared services and IT pilot programs. Additionally GSA will work with OMB to better understand how these services are covered under the IT Shared Services Strategy.***)
3. Establish policy to require advance senior leadership approval of IT shared services and IT pilot programs with other government agencies (***GSA concurs, and a policy will be established to require advanced approval by the relevant Heads of Services and Staff Offices (HSSO) or designee.***)

U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405
Telephone: (202) 501-0800
Fax: (202) 219-1243

Appendix B – Management Comments (cont.)

4. Ensure GSA's IT shared services and IT pilot program agreements receive advanced review by GSA's Office of General Counsel (**GSA concurs.**)
5. Ensure that all shared services are approved by OMB prior to providing services to other agencies (**GSA concurs, and will work with OMB to better understand where approvals are necessary and apply them when required.**)
6. Ensure there is an active agreement governing both GSA's and its customers' responsibilities at all times when shared services are being provided. (**GSA concurs and will ensure that there is an active agreement in place.**)

If you have any questions, please contact myself or David Shive, Chief Information Officer (I), on 202-501-1000.

Sincerely,



Adam Neufeld
Deputy Administrator

Appendix C – Report Distribution

GSA Administrator (A)

GSA Deputy Administrator (AD)

Chief Information Officer (I)

Commissioner, FAS (Q)

Associate Administrator, Office of Citizen Services and Innovative Technologies (X)

Chief Administrative Services Officer (H)

GAO/IG Audit Response Branch (H1C)

Audit Liaison, GSA IT (IEB)

Assistant Inspector General for Auditing (JA)

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