



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-4500

OFFICE OF THE INSPECTOR GENERAL

Audit-Related Memorandum
00-DP-166-0804

September 29, 2000

MEMORANDUM FOR: Saul Ramirez, Deputy Secretary, SD

FROM:  Benjamin K. Hsiao, Director, Information Systems Audit Division, GAA

SUBJECT: Department's September 2000 Purchase of COTS Financial Management System

We are providing this audit memorandum to alert you to our concerns over the September 1, 2000, purchase of a Commercial Off-the-Shelf (COTS) software package for the Department's and FHA's core financial management system. The Department may be repeating a past mistake of a hasty decision without adequate studies and analyses. In an OIG memo dated January 28, 1998, we outlined several risks associated with the Department's decision to implement the existing COTS integrated financial system. These risks include an incomplete evaluation of viable solutions, user requirements, costs, and data conversion. Since that decision, the Department encountered delays and cost overruns, resulting in an inability for the OIG to render an opinion on the FY 1999 Financial Statements. In order to minimize the risk of another failure, we are recommending that before any development work starts for this new initiative, adequate feasibility and cost/benefit analyses are completed, user requirements are defined, and the Department's Enterprise Architecture Plan is completed.

Authority and Scope:

On September 12, 2000, we issued an audit engagement letter notifying you that we are planning for a review of the department's IT capital planning activities, including the financial management system, as well as related cross-cutting departmental development proposals. Because we were not notified, as required under Section 2.5 of the Department's System Development Methodology (SDM), that a new financial management system was being purchased, we could not express our concerns prior to the Department spending \$1.45 million for the new procurement. However, we are informing you of our concerns now to assist the Department in avoiding potential development failure or excessive costs.

Since the Departmental officials wanted to delay our work because of other priorities, our access to necessary records and management staff was restricted. Therefore, the scope of this review has been limited and any such effects upon our memorandum discussion are noted

therein. Our review was limited to the COTS procurement records on file with the Procurement Office and to two meetings with management -- one with the CFO and CIO staff and the other one with the Federal Housing Administration (FHA) staff. At the FHA meeting, we were provided with five IT investment decision documents, including the feasibility study and the cost/benefit analysis. A draft functional requirements document, prepared by a contractor and dated March 2000, for the FHA financial management system was also provided at this meeting.

Project Background:

According to the procurement file, the FHA Comptroller forwarded a request for COTS financial management system to the Department's Procurement Office on May 23, 2000. The selected software vendor was to provide FHA with licenses for 100 users with data entry/update access and 300 users with read only access. Three software vendors were invited to submit bids by June 22, 2000. The initial bids for the FHA procurement ranged from \$655,763 to \$1,236,218. After the initial bid submission, the procurement proposal was revised and rebid to include licenses for Department-wide use of the financial management system. The requested number of licenses increased to 700 data entry users and 1,600 read only users. The revised Department-wide procurement resulted in a negotiated \$1.45 million award to the vendor, who was considered to have the best viable software. The selected vendor was awarded a purchase contract on September 1, 2000. The total estimate for the development and implementation of the first phase of the system is \$5.6 million.

The procurement action originated from a December 6, 1999 FHA Vision Statement to improve its existing financial management system. The existing FHA system is inefficient and consists of 19 different operational subsidiary systems that provide input for a general ledger system that is based upon commercial accounting principles and accounts. The financial auditors have reported that the existing system is a material weakness, as it does not comply with federal financial management system requirements prescribed by the Joint Financial Management Improvement Program (JFMIP). The operating system's transactions are provided only on a monthly basis to the general ledger system and some of this input has to be done on a manual basis. In addition, the commercial general ledger system accounts and balances have to be converted to the standard federal government format for its input into the Department-wide financial system. The systems also lack the ability to efficiently handle the numerous special requirements of the Credit Reform Act.

The FHA Vision Statement provided a three phase approach over an extended period to improve the existing system. The first phase was to develop an intermediary financial data warehouse between the 19 subsidiary operating systems and the general ledger system. This warehouse will be used to convert the monthly transaction extracts from the operating systems into the federal standard general ledger format to speed up the processing and transfer of this data to the Department-wide system. The second phase was to purchase and install a JFMIP compliant COTS package for the

FHA general ledger system. The third phase was to make additional improvements in the subsidiary operating systems to provide the capability to provide daily or real-time transfers to the general ledger.

Our Concerns :

Our primary concern of the COTS purchase was the lack of analysis of both the solution and software alternatives and the apparent haste of the software decision. Although we agree that FHA system improvements are necessary, the rush to purchase a software system in such a short time frame was not warranted. We are also concerned that this software selection may be used as the Department-wide system prior to completion of the required Department-wide feasibility and cost/benefit studies. The CFO has informed us that she has not yet made that decision.

As a result of the COTS purchase, the FHA has apparently wavered from its Vision Statement, which was still effective as of February 29, 2000. The COTS package was supposed to be implemented after the Financial Data Warehouse project was completed. However, we understand from the FHA discussion that the Warehouse project is still in its early stages. In fact, an FHA official, in an April 12, 2000 e-mail to the CIO office, questioned whether the implementation schedule for the warehouse and COTS projects could be reversed. The CIO office answered that it could. We also understand from the procurement contract and the FHA staff that the COTS purchase is no longer being funded from the Departmental Working Capital Fund and was funded directly out of FHA appropriations. We have some concern that the Working Capital Fund is not being used for a project that is, at least partially, a Department-wide project.

At the FHA meeting, we were provided with copies of five documents required by the SDM prior to development acquisition or implementation decisions: the feasibility study of alternatives, the cost/benefits analysis of alternatives, the project plan, the risk analysis of alternatives, and the needs statement. The first two documents were not dated. In addition, the attached authorization forms, which request signatures from the involved officials certifying as to the compliance of these documents to the SDM guidelines, were not signed.

Our review of these documents found that they were inadequate to support proceeding to the procurement stage. Costs of the alternatives were not provided, nor were any quantifiable benefit figures provided in either the feasibility or cost/benefit documents. In addition, the wording relating to the discussion of alternatives for both the feasibility and cost/benefit studies were identical and provided only a combined total of 10 lines discussion on the three alternatives listed -- custom development, enhancement of the existing general ledger system, and use and expansion of the current Department-wide financial management system. For example, the wording on the last alternative consisted of only the following: "Alternative 3 would also be an interim solution. As currently configured, the FHA Comptroller has determined that using HUDCAPS Subsidiary Accounts would not meet all FHA accounting requirements." We believe that none of the proposed software solutions will meet all FHA accounting requirements without some modifications and therefore, the potential for the HUDCAPS system to be modified to meet these requirements should not automatically be dismissed. Because of

the uniqueness of the Credit Reform Act and the housing programs, custom development also can not automatically be dismissed.

Another concern with the procurement action was that it was made prior to completion of the Department's Enterprise Architect Plan, which is suppose to provide standards and guidelines for system development decisions. Any proposed system, software, or hardware solution that is contrary to the Plan is supposed to be rejected. The Plan is expected to be completed in January 2001. The FHA staff informed us that they did not have a current draft of the Plan but assumed their software solution would be in compliance since the CIO office approved the procurement project.

We also have another concern from our review of the procurement file. A vendor of an approved COTS package for federal financial systems was not invited to participate in the bidding process "because of poor past performance on prior contracts with the Department", as reported in the procurement file document titled "Summary of Procurement Action". The federal procurement regulations (FAR 9.104-3) require that exclusion of vendors be based on a record of past nonperformance including the number of contracts involved and the extent of the deficient performance in each contract. We did not find any evidence of such a performance record or cite thereto in the procurement file.

As mentioned previously, we are also concerned that the Department may be predisposed to the FHA COTS selection since the majority of the additional licenses were for Department-wide use. In addition, the centerpiece of a Vision Statement for the Department-wide financial management system, issued by the CFO during August 2000, was the purchase of the COTS package. Although the software purchase has already been made, the significant part of the total system cost will consist of the subsequent development and modification efforts to implement the system. We recommend that before this development effort is undertaken for either FHA or for Department-wide, that adequate feasibility and cost/benefit analyses be conducted. These studies should also include, for example, a plan where potential software solutions should be pre-tested to a sufficient degree for technical interfacing with a sample of the 19 FHA subsidiary operating systems.

Recommendations :

We recommend that the Deputy Secretary, delay any development efforts for the purchased COTS package until adequate SDM studies and analyses, such as the feasibility study, cost/benefit analyses, and risk analyses, are conducted and the Enterprise Architect Plan is issued and considered.

cc: Victoria L. Bateman, Deputy Chief Financial Officer, F
Keith A. Cole, Acting FHA Comptroller, HQ
Joseph Smith, General Deputy Assistant Secretary for Administration, AA
Gloria Parker, Chief Information Officer, Q