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### **Acronyms**

DSS	Defense Security Service
JPAS	Joint Personnel Adjudication System
MOA	Memorandum of Agreement
NISP	National Industrial Security Program
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OUSD(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
PSI	Personnel Security Investigation
SSN	Social Security Number
USD(I)	Under Secretary of Defense for Intelligence



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April 10, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR INTELLIGENCE  
DIRECTOR, DEFENSE SECURITY SERVICE

SUBJECT: Report on Transition Expenditures for DoD Personnel Security Investigations for  
FY 2005 (Report No. D-2007-083)

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Ms Jacqueline J. Vos at (703) 428-0919. See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Paul J. Granetto", is positioned above the printed name.

Paul J. Granetto, CPA  
Assistant Inspector General and Director  
Defense Financial Auditing Service

## Department of Defense Office of Inspector General

Report No. 2007-083

(Project No. D2006-D000FB-0065.000)

April 10, 2007

### Transition Expenditures for DoD Personnel Security Investigations for FY 2005

#### Executive Summary

**Who Should Read This Report and Why?** Personnel at the Military Components and Defense agencies who are responsible for requesting, obtaining, and funding personnel security investigations should read this report. The report discusses impediments to the DoD personnel security investigation program.

**Background.** On October 16, 2004, the Deputy Secretary of Defense and the Director of the Office of Personnel Management signed a Memorandum of Agreement (the Agreement) for transferring the DoD Personnel Security Investigation functions from the Defense Security Service to the Office of Personnel Management. On February 20, 2005, the Defense Security Service transferred the investigation functions along with about 1,300 investigators. As part of the Agreement, DoD provided a one-time cash payment plus accrued annual leave of about \$41.2 million to the Office of Personnel Management and agreed to pay up to a 25 percent premium on the DoD rate for security investigations initiated after the transfer. During FY 2005 DoD expended about \$355.1 million for personnel security investigations and projected FY 2006 expenditures of more than \$600 million.

In August 2005, the Acting Director for the Defense Security Service requested that we determine whether the expenditures made to the Office of Personnel Management for Personnel Security Investigation services were in accordance with the Agreement. However, the Agreement requires a joint audit with the Office of Personnel Management, so we coordinated with the OPM Office of Inspector General who agreed to assess whether the Office of Personnel Management conformed to the terms of the Agreement and to review the investigation rate structure and adjustments charged for services. We are reporting on the execution of DoD requirements in the Agreement.

**Results.** The Defense Security Service internal controls were not adequate. We identified a material internal control weakness in the administration of personnel security investigation requests. DoD lacks assurance that the invoices it paid for investigations were accurate. In addition, DoD did not meet all requirements in the Agreement. As a result, DoD's inability to reconcile investigation invoices meant DoD could not validate payments of \$355.1 million for FY 2005 investigations or more than \$600 million in FY 2006. Strengthening control activities and monitoring over the payment for personnel security investigations will help ensure that DoD funds for that purpose are safeguarded. Also, DoD needs to develop a financial plan to provide for potential OPM losses as agreed to.

**Management Comments and Audit Response.** The Under Secretary of Defense for Intelligence concurred with the report and partially concurred with our recommendations. He commented that funds have been requested through the appropriate budget mechanisms to update the Joint Personnel Adjudication System, and the Defense Security Service has been designated

to develop a financial plan. The Defense Security Service concurred with two of the recommendations, nonconcurred with one recommendation, and partially concurred with two of the recommendations. DSS has prepared a tutorial that instructs DoD Components on appropriate procedures for processing requests including reviews for duplicate requests, used software tools to reconcile invoice text files, and begun developing a process for accurate and timely workload projections as a budget methodology. These actions meet the intent of our recommendations; therefore, we require no further comments. Management comments are discussed in the Finding section of the report and the complete text is in the Management Comments section of the report.

**Management Actions.** DoD signed an Amendment (the Amendment) to the Memorandum of Agreement with the Office of Personnel Management on October 17, 2006. The Amendment reduced the premium on the DoD rate for investigations for a portion of 2006, eliminated the premium in FY 2007 and all future years (refunding a total of \$7.01 million to DoD), and terminated the indemnity against all OPM losses incurred from the transfer of the personnel security investigation function. As of January 25, 2007, the Defense Security Service has a Chief of Staff and the Acting Director was named Director on March 13, 2007. The position for a permanent Deputy Director also was advertised and a decision is pending. The Defense Security Service formed a working group with the Office of Personnel Management to resolve issues concerning the personnel security investigation payment process, developed a written standard operating procedure for the certification and payment process in August 2006, and began the process for disseminating guidance to DoD Components to reduce or eliminate the occurrences of duplicate requests. A complete discussion of management actions is in the Finding section of the report.

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## Background

The Defense Security Service (DSS), established in 1972, provides a single, centrally directed service within the DoD for conducting personnel security investigations (PSIs). PSIs inquire into an individual's loyalty, character, trustworthiness, reliability, honesty, and financial responsibility. DoD adjudicative facilities use PSI results to determine an individual's suitability to enter the armed forces, access classified information, or hold a sensitive or trustworthy position within DoD or within a DoD-cleared contract facility.

**Public Law 108-136.** Public Law 108-136, "The National Defense Authorization Act for Fiscal Year 2004," November 24, 2003, section 906, authorizes the Secretary of Defense to transfer to the Office of Personnel Management (OPM) the PSI functions performed by DSS. DSS continues to serve as the Executive Agency for the financing and management of PSIs for the National Industrial Security Program (NISP), which investigates individuals, including contractor personnel in DoD and other Federal agencies.

**Memorandum of Agreement.** On October 16, 2004, the Director, OPM, signed an Agreement with the Deputy Secretary of Defense to clarify financial terms for the transfer of PSI functions. The Agreement states that DoD will:

- develop a financial plan to cover any operating loss realized by OPM during a 3-year period from the start of the transfer of PSI functions in any year (using a potential annual loss of \$75 million for planning purposes);
- pay OPM for losses incurred from the transfer of PSI functions during a 3-year period from the start of the transfer;
- make a one-time cash payment of up to \$33.8 million (based on OPM estimates that included \$15 million to cover estimated startup costs and up to \$18.8 million to cover costs for information technology equipment, additional support, and program management staff expenses);
- cover the full cost of accrued annual leave for employees transferred to OPM at the time of the transfer and retain responsibility for claims or settlements still pending at the point of executing the Agreement; and
- distribute OPM investigation charges to DoD Components, accept the Office of Management and Budget (OMB) as mediator on unresolved financial issues related to the transfer, and develop a joint OPM/DoD personnel security improvement plan.

The Agreement also states that OPM may charge DoD for PSIs at current DoD rates, plus annual price adjustments, plus up to a 25 percent premium to offset potential operating losses. OPM should report performance and processing cost data for PSIs conducted by transferred DSS staff, including estimates of operating gains and losses to date, and projected losses for the upcoming quarterly review. The Agreement states that a joint OPM/DoD audit team will audit the PSI financial status and determine whether financial adjustments are warranted in accordance with the Agreement.

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On February 20, 2005, OPM assumed managerial control of the PSI functions and DoD began purchasing PSI services from OPM. In FY 2005, DSS processed about 1.1 million PSI transactions valued at \$355.1 million.

**Request for Review.** In August 2005, the Acting Director for DSS requested that we determine whether the payments made to OPM for PSI services were made in accordance with the Memorandum of Agreement (the Agreement). The Agreement requires a joint audit with the Office of Personnel Management so we coordinated with the OPM Office of Inspector General, who agreed to assess whether OPM conformed to the terms of the Agreement and to review the OPM investigation rate structure and adjustments OPM charged to DoD for PSIs.

## Objectives

Our overall audit objective was to determine whether expenditures for the transition of the PSIs from DSS to OPM met requirements of the Agreement. As required by the Agreement, we coordinated a joint audit with OPM. The OPM Office of Inspector General agreed to perform an assessment of whether OPM was conforming to the terms of the Agreement and to review the OPM rate structure and adjustments charged to DoD for PSIs. We are reporting on the execution of the DoD requirements of the Agreement. See Appendix A for a discussion of the scope and methodology, and Appendix B for prior coverage related to the objectives.

## Review of Internal Controls

We identified material internal control weaknesses for DSS as defined by DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures” January 4, 2006. DSS did not have internal controls in place over the PSI payment process to:

- ensure that all requirements in the Agreement were met
- provide consistent management to establish policies and procedures,
- develop adequate budget and projections for future investigation requests, and
- upgrade the automated system to track PSI invoices.

Implementing the recommendations in this report will strengthen control activities and monitoring of the DSS PSI payment process and prevent omissions in fulfilling the Agreement. A copy of the final report will be provided to the senior official responsible for internal controls in DSS and the Office of the Under Secretary of Defense for Intelligence.

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## DoD Controls over the Personnel Security Investigation Process

DoD did not ensure accuracy of OPM invoices before making payment for personnel security investigations. In addition, DoD did not develop a financial plan to offset potential OPM losses. DSS internal controls over the personnel security investigation process were insufficient to ensure all requirements in the Agreement were met. And DSS has been handicapped by inconsistent management and an inadequate automated PSI invoice tracking system. As a result, DoD could not validate \$355.1 million invoiced for personnel security investigations in FY 2005 and ensure that the projected investigation costs of more than \$600 million in FY 2006 were accurate.

### Payment Guidance

**Invoice Payment Requirements.** Public Law 107-300, “Improper Payment Information Act,” November 26, 2002, section 2, includes payments that should not have been made and payments made for an incorrect amount. Section 3901 of title 31, United States Code (31 U.S.C. 3901), states that a proper invoice has substantiating documentation and 31 U.S.C. 3903 states that payment requests should not be approved unless the application for payment includes substantiation of the amount requested.

**DoD Guidance.** DoD Financial Management Regulation, Volume 5, Chapter 33, “Department Accountable Officials, Certifying Officers and Review Officials,” April 2005, states that certifying officers are responsible for certifying a voucher for payment and are responsible for the accuracy of facts stated on a voucher and in supporting documents and records.

DoD Directive 5143.01 “Under Secretary of Defense for Intelligence (USD[I]),” November 23, 2005, gives the USD(I) authority over the Director, DSS, who reports to and receives guidance from USD(I).

### OPM Invoice Accuracy

DoD lacks assurance that OPM invoices for PSIs were accurate. DSS functions as the single, centrally-directed service for processing DoD PSI invoices—receiving and distributing OPM invoices to DoD Components. Monthly, OPM mails a compact disc that contains about 50 separate invoices to DSS for PSI services. Each invoice can contain thousands of records for scheduled or completed PSI requests.

In FY 2005, OPM billed DoD for 1,076,075 records costing \$355.1 million. Therefore, DoD had a monthly average of 89,673 records for an average of \$29.6 million owed. Table 1 shows the distribution of FY 2005 PSI invoice costs to DoD Components.

<b>Table 1. FY 2005 OPM Invoices to DoD by Component</b>		
<b>Component</b>	<b>Records</b>	<b>Invoice (millions)</b>
Army	321,937	\$ 81.9
Navy/USMC	312,233	\$ 90.9
Air Force	233,688	\$ 79.9
NISP	150,388	\$ 80.5
Other	57,829	\$ 21.9
<b>Total</b>	<b>1,076,075</b>	<b>\$355.1</b>
Monthly Average	89,673	\$ 29.6

DSS personnel stated that the supporting documents accompanying OPM invoices were unusable. Supporting documents came in electronic text format with investigations data that could have several billable events invoiced over several months, and billable events that could not be matched to the standard rates that OPM charged DoD. For example, a request for a special background investigation may include various types of law enforcement inquiries that OPM bills as individual amounts. However, the text file received with the invoice does not include identifying information that explains the individual charges. Security personnel were unable to assess the accuracy of the data in the text file. The number and amounts of the invoices made the determination of accuracy difficult. Therefore, DoD had no assurance that the funds expended for PSI services were accurate, appropriate, and correctly allocated and that they did not duplicate ongoing investigations.

## Memorandum of Agreement Requirements

DoD did not develop a financial plan to cover any operating loss realized by OPM as required by the Agreement. Personnel from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer (OUSD[C]/CFO), and DSS acknowledged that lack of compliance. However, DoD did meet the requirement for transferring funds to OPM when they were requested.

**Purpose of the Plan.** The Agreement requires that DoD develop a financial plan to cover any OPM losses, using \$75 million for planning purposes. The financial plan would cover any operating losses that OPM realized in any year during the 3-year transition period that began on February 20, 2005. OUSD(C)/CFO personnel did not develop the financial plan because PSI losses would be considered contingencies and DoD has no method to budget for contingencies. OPM has not experienced losses from the transition of PSI functions, from February 2005 to September 2005. In fact, OPM earned a net income of \$1.7 million from the operations for the PSI functions for that period. However, the inability of DoD to develop a financial plan for PSI contingencies may hinder the ability to cover any future losses incurred by OPM as a result of PSI functions in FY 2007 and FY 2008.

**Transferred Amounts.** The Agreement required DoD to transfer set amounts to OPM that would mitigate startup costs for PSI functions. DoD met this requirement of the

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Agreement. DoD transferred to OPM a total of \$41.2 million in startup funds to support the PSI functions transfer that included \$15 million to cover initial estimated startup costs and \$15.9 million for information technology equipment, additional support and program management staff expenses, and any one-time transition expenses. OPM requested and received an additional \$10.3 million for accrued annual leave for about 1,300 DSS staff that transferred from DSS.

## Defense Security Service Controls

DSS controls over its PSI process were insufficient. Inconsistent DSS management has resulted in failure to establish policies and procedures for invoice reconciliation and invoice payment certification. DSS needs an automated system with which to match investigation requests to investigation invoices.

**DSS Management Environment.** Inconsistent management hindered development of internal controls and created control weaknesses over reconciling, paying, and certifying PSI invoices and formulating PSI budget estimates. From October 2005 to June 2006, DSS management turnover included three Acting Directors and two Comptrollers. DSS also had two successive bill processors.

**Invoice Reconciliation.** DSS personnel stated that no written policies and procedures exist for invoice reconciliation. DSS personnel converted text files received from OPM into spreadsheets broken down by DoD Component. The spreadsheets and the invoices were forwarded to the appropriate DoD Component for invoice validation. DoD Components recognized that the supporting documents (spreadsheets) were too large to reconcile each line item. DSS used Microsoft Excel spreadsheets in an attempt to analyze the FY 2005 PSI database. Each spreadsheet holds about 65,000 records; however, supporting documents for FY 2005 contained about 1.1 million records with monthly invoices averaging 89,000 records. DSS had to segment FY 2005 PSI database records into several spreadsheets, which hampered effective analysis of monthly and historical data.

Considering the large volume of PSI activity, a manual invoice reconciliation process would be impractical and ineffective for most DoD Components. To effectively analyze and approve monthly invoices, Component reviewers needed a software program specifically designed to query and analyze large databases. However, there was no such tool and there were no policies or procedures for reconciling invoices; therefore, DoD Components approved invoices for payment without determining whether they were accurate.

**Invoice Payment Process.** The PSI invoice payment process is unclear and undocumented. DoD relied on the invoice information OPM provided to determine the amounts to pay OPM for PSI services. DoD accepted OPM investigation records as the primary source to verify OPM PSI charges. DSS continued to certify payments to OPM without substantiating the validity of OPM invoices. Although DSS personnel certified payments to OPM through the Defense Finance and Accounting Service, DSS personnel

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could not provide any documentation authorizing payments to OPM. DSS personnel stated that such documents do not exist. The lack of effective DoD oversight of PSI invoice payments precludes DoD's accountability over PSI costs.

**PSI Invoice Certification.** PSI invoices were not properly certified for payment by the DoD Components or DSS officials. According to the DoD Financial Management Regulation, certifying officers are responsible for certifying a voucher for payment and for the accuracy of facts stated on the voucher and in supporting documents and records. Certifying officers receive appointments through DD Form 577, "Appointment / Termination Record - Authorized Signature." Although DSS identified four officials assigned to certify PSI invoices for monthly payments, DSS had only one certifying official with the required DD Form 577 appointment necessary for certifying invoice payments. However, the date of appointment for the certifying officer was August 10, 2005. Therefore, less than 2 months of the FY 2005 invoices were certified by a properly appointed certifying official.

**PSI Sample Review.** From invoices that DSS certified for payment in FY 2005, we selected a judgmental sample of 46 social security numbers (SSNs) with multiple PSI requests worth \$82,543.

**Multiple PSI Requests.** SSNs can have multiple PSI requests for various categories of investigation such as background, criminal, and fingerprints. Of the 46 SSNs, 30 had duplicate PSI requests for the same type of investigation under the same SSN. These duplicates represented \$17,709 in unnecessary costs (more than 20 percent of costs for the total judgmental sample reviewed). Duplicate PSIs occurred because DoD personnel requested investigations without reviewing the DoD Joint Personnel Adjudication System (JPAS). Reviewing JPAS would determine whether an SSN had a current investigation. Analysis of the 30 sample items with duplicate PSI requests revealed that one requesting official was responsible for 4 SSNs with duplicate PSI requests costing \$6,895.<sup>1</sup> Certifying officials approved payments for PSI invoices containing duplicate requests without adequate review.

**Blank SSNs.** An additional judgmental selection of 10 records with blank SSNs indicated that OPM lost SSNs while downloading data into its financial system; however, the loss of SSNs had no financial impact on DoD. We used data from the OPM Personnel Investigation Processing System because JPAS does not contain cost data.

**PSI Budget Formulation.** The Deputy Director for Personnel Security, USD(I), indicated that a survey was sent each year to DoD Components with a request to estimate future PSI funding requirements. Survey responses from DoD Components did not show analysis, supporting data, or other documentation in the estimates. The Deputy Director stated that the budget requests from DoD Components were reviewed only for reasonableness. However, the Deputy Director stated that DoD Components did not have a standard methodology for estimating PSI costs or requests. Therefore, USD(I) did not adequately scrutinize projected budgets and workloads submitted by the various DoD Components.

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<sup>1</sup> Further review of this requesting official's submissions in FY 2005 showed 32 additional SSNs that contained duplicate PSI requests costing \$52,294. The requesting official's duplicate PSI requests totaled 36 at a cost of \$59,189.

DoD Components' budget requests varied widely in their ability to forecast the amount of funds that would be needed or the number of potential PSIs requested. For instance, the Army and NISP projected running out of funds in May 2006 while the Air Force projected running out of funds in August 2006. The lack of a standard, consistent, and sound PSI budget request methodology caused a severe financial crisis in May 2006 that resulted in DSS instituting a moratorium on private sector requests for PSIs. The projected funding shortfalls and dates for running out of funds are shown in Table 2.

<b>Table 2: FY 2006 Budget Shortfall Projections</b>				
<b>Major DoD Component</b>	<b>Budget (millions)</b>	<b>Shortfall (millions)</b>	<b>Total (millions)</b>	<b>Dates for Shortfall</b>
Air Force	\$ 101.4	\$ 8.8	\$ 110.2	Late August
Army	\$ 75.0	\$ 43.9	\$ 118.9	Mid May
Navy	\$ 96.9	\$ 21.8	\$ 118.7	Late July
NISP	\$ 145.3	\$ 90.7	\$ 236.0	Early May
Other	\$ 17.3	\$ 2.5	\$ 19.8	Early May
<b>Total</b>	<b>\$ 435.9</b>	<b>\$ 167.7</b>	<b>\$ 603.6</b>	

The total budget shortfall projected for DoD was \$167.7 million. For FY 2006, DSS projected the total budget with shortfall as \$603.6 million.

**DSS Internal Controls Summation.** DSS needs consistent management to develop and implement policies and procedures for reconciling and certifying PSI invoices. Neither DSS nor DoD Components effectively reviewed OPM invoices to determine whether invoice amounts were accurate. We questioned the validity of DoD invoice payments because of limited reviews for accuracy by DoD Components and certifying officers without formal written appointments. Developing a budget formulation methodology and consistently applying the methodology among DoD Components would improve budget forecasting for needed funds and potential PSI requests. Therefore, USD(I) should develop written policies and procedures that follow DoD guidance for invoice reconciliation, certification, and payment. Also, DoD should develop a budget methodology that would accurately estimate the needed funds and numbers of potential PSI requests.

**PSI Automation.** DoD lacks an automated process for matching DoD PSI requests with OPM PSI invoices. The DoD used JPAS for real-time information regarding clearance, access, and investigative status. According to the DSS Chief Information Officer, JPAS is the only DoD automated system that could be modified to reconcile PSI requests to PSI invoices.

**Data Elements.** JPAS lacks key system elements that prevent it from being an effective control. The DSS Chief Information Officer acknowledged that JPAS does not have specific edit checks that could prevent duplicate requests to OPM. JPAS data dictionary lacks cost data such as the standard and actual cost for the requested PSI. Without edit checks, JPAS data may have errors and conflict with numerous data interfaces. Without cost data, JPAS has no standard to compare actual PSI costs on

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invoices to standard costs from the OPM price list for various types of investigations and inquiries. Without edit check data elements, JPAS cannot be used effectively for reconciling PSI invoices to PSI requests. OMB Circular A-123, "Management's Responsibility for Internal Controls," December 21, 2004, states that application control should ensure that transactions are valid and complete. Controls should be established at an application's interfaces to verify inputs and outputs, such as edit checks.

**JPAS Upgrade.** We discussed the need for providing edit checks with the Acting Director of DSS, who indicated that the \$22 million development of System X included a JPAS upgrade. However, System X remains unfunded. In order to accurately reflect the costs associated with requested and completed PSIs, USD(I) should allocate the funds needed to update JPAS. In addition, DSS should request that JPAS undergo a complete general and application control review to ensure that other requirements are addressed prior to its modification.

**Database Analytical Tool.** The database analytical tool used by DSS was inadequate. Duplicate PSI requests on OPM invoices could be eliminated with better analytical tools. DSS used Excel spreadsheet software to analyze the PSI invoices. DSS segmented the data into blocks with a maximum capacity of about 65,000 records. However, duplicate or unnecessary clearance requests could go undetected because duplicate PSIs may be in different blocks of records. Effective analysis requires that all available data elements be in one file. We assisted DSS personnel in determining the type of database analytical tool that would enable them to better analyze their data. DSS management purchased a license for a database analytical tool that eliminated record restrictions and allowed DSS the ability to analyze all PSI invoices together.

## **Impact of Defense Security Service Controls**

The inability to reconcile PSI invoices meant DoD could not validate \$355.1 million for PSI invoices in FY 2005 or more than \$600 million in FY 2006. The high turnover in key DSS management personnel greatly increased DoD vulnerability in paying for PSI services that were unnecessary or misallocated. Lack of a standard methodology and thorough review of workload data for estimating PSI funding resulted in projected budget shortfalls totaling \$167.7 million in FY 2006. In addition, the moratorium on NISP investigations resulted in criticism from Congress, increased contractor costs, decreased contractor effectiveness, and embarrassment for the Department. The lack of an adequate automated system resulted in DSS paying OPM without verifying whether such payments were for services requested.

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## Management Actions

**DSS Comments.** DSS has worked to strengthen internal controls over the PSI payment process and formed a working group with OPM to resolve issues concerning the process. As a result of working group efforts, DSS is in the process of disseminating guidance to the DoD Components to reduce or eliminate the occurrences of duplicate requests. On October 17, 2006, DoD amended the MOA with OPM. The Amendment required OPM to retroactively reduce the premium DoD paid for investigations for a portion of 2006, resulting in a refund of \$5.01 million to DoD. It also eliminated the premium beginning in FY 2007 and for future years. OPM refunded to DoD at the close of FY 2006 an additional \$2 million in excess of revenue and operating expenses for PSI functions. The Amendment terminated the requirement for DoD to cover OPM losses incurred from the transfer of PSI functions. Further, DoD and OPM agreed to review DoD IG and OPM IG reports on PSIs and to enter into senior level discussions to ensure that:

- PSI charges are only for reasonable costs resulting from services requested by DoD,
- OPM uses a fair and reasonable method to determine the PSI price from the cost for investigations,
- OPM is costing and executing contracts in a fair and effective manner; and,
- OPM has no augmentation of appropriation through charges to DoD.

As of January 25, 2007, DSS has a Chief of Staff and on March 13, 2007, the Acting Director was named Director. The position of Deputy Director has also been advertised with a decision pending.

## Recommendations, Management Comments, and Audit Response

### 1. We recommend that the Under Secretary of Defense for Intelligence:

#### a. Allocate funds needed to update the Joint Personnel Adjudication System.

**Management Comments.** USD(I) partially concurred with our recommendation and agreed that JPAS should be updated, but disagreed that it is a USD(I) responsibility to fund an upgrade. USD(I) stated that JPAS is the DoD-wide system of record for personnel security information; therefore, funding for the system is a department-wide responsibility. Funds have been requested through appropriate budget mechanisms and USD(I) will continue to seek solutions to the funding shortfalls.

**Audit Response.** USD(I) comments are responsive. The USD(I) effort to seek solutions to the funding shortfalls through appropriate budget mechanisms complies with the intent of our recommendation.

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**b. Develop a financial plan as stipulated in the Memorandum of Agreement.**

**Management Comments.** USD(I) partially concurred with our recommendation, stating that the October 2006 Amendment to the original MOA terminated any obligation to cover OPM losses incurred from the transfer; therefore, the MOA no longer requires a financial plan. Acknowledging the need for an overall financial plan for the security program, USD(I) designated DSS as the entity to develop the financial plan in coordination with the DoD Components and Security Directorate. The financial plan will have two components delineating how the department will: (1) pay for PSIs and (2) fund the implementation of the personnel security improvement plan.

**Audit Response.** The USD(I) comments are responsive and comply with the intent of our recommendation.

**2. We recommend that the Director at the Defense Security Service:**

**a. Develop written policy and procedures on the personnel security investigation invoice process to include the reconciliation, certification, and payment of the invoice.**

**Management Comments.** The Acting Director of DSS partially concurred with our recommendation and stated that DSS developed a written SOP in August 2006 for the PSI certification and payment process. However, she deferred comment on DSS reconciling the bills from OPM to the DoD Components because at this time the DoD Components perform invoice reconciliation. DSS formally appointed three Certifying Officers for PSI invoices. DSS plans to develop an invoice reconciliation process but currently receives OPM invoices for PSIs conducted for DoD Components, identifies the appropriate bill payer, and provides the billing data to that DoD Component for reconciliation and validation. DSS will work with the USD(I) to facilitate policy changes that will authorize DSS to develop and monitor a standardized reconciliation process. DSS continues to work with OPM on necessary changes that improve the monthly billing data used to review and validate the monthly PSI invoices. Improvements include using codes that link investigations, rates, and fees; using software to build a database that tracks the history of PSI submissions by SSN; using SSNs as an edit check to avoid duplicate billing; and preparing a tutorial that instructs the DoD Components on appropriate procedures for processing PSI requests. The tutorial instructs requestors to review JPAS before submitting PSI requests to OPM and stresses the importance of following OPM case cancellation procedures when PSIs are no longer needed.

**Audit Response.** DSS comments are responsive. The SOP that DSS developed for the PSI certification and payment process complies with the intent of our recommendation.

**b. Develop a standard methodology for estimating budget and potential personnel security investigation requests from the DoD Components.**

**Management Comments.** DSS partially concurred with our recommendation and stated that a standard methodology for projecting DoD requests for PSIs is a necessary part of the budgeting process and that DSS will work with USD(I) for a policy change that would give DSS the authority to develop a budget methodology for all DoD Components. In the Amendment to the MOA, DoD agreed to immediately undertake development of a process to provide OPM with annual workload projections, sorted by investigation type, that are accurate and timely to support the requirements of the Intelligence Reform and

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Terrorism Prevention Act of 2004. Also, DSS is pursuing additional funding to establish a Clearance Oversight Office that will validate projections of investigation requirements by linking position sensitivity levels and funding with specific projections of DoD future acquisition needs.

**Audit Response.** DSS comments are responsive and comply with the intent of our recommendation. Workload projections based on investigation type are a significant part of the budget estimation process for DoD Components.

**c. Obtain a general and application controls review of the Joint Personnel Adjudication System.**

**Management Comments.** DSS concurred with our recommendation and stated that it is partnering with the DoDIG to support the audit field work and resolve any findings for DoDIG Project No. D2007-D000FB-0064.000, “Audit of Controls and Compliance of the Joint Personnel Adjudication System” announced on November 29, 2006. In anticipation of the JPAS audit, DSS conducted a limited self-assessment of JPAS general and application controls and is in the process of correcting noted deficiencies. The audit is scheduled to be completed in August 2007.

**d. Modify the Joint Personnel Adjudication System so that it has the ability to:**

**(1) Perform one-to-one reconciliation between DoD personnel security investigation requests and the Office of Personnel Management invoice for the related personnel security investigation service.**

**Management Comments.** DSS concurred with our recommendation and stated that it will continue to pursue funding for JPAS enhancement to provide the capability for invoice reconciliation between DoD requests for PSIs and OPM services. DSS stated that it will resubmit this funding requirement during the mid year review (second quarter, FY 2007) as well as in the Program Budget cycle (September 2008 for FYs 2010 through 2015).

**(2) Screen duplicate and unnecessary personnel security investigation requests and provide audit trails so that trends can be analyzed.**

**Management Comments.** DSS nonconcurred with our recommendation and stated that JPAS is the vehicle used by DoD security offices to request PSIs, via the OPM Electronic Questionnaire for Investigations Processing form. However, authority for initiating and validating PSI requests rests with each requesting DoD Component’s security office. DSS does use JPAS data to track and analyze trends.

**Audit Response.** DSS comments are responsive. The tutorial that DSS prepared to instruct DoD Components on appropriate procedures for processing PSI requests, in response to Recommendation 2.a., includes instructions on reviewing JPAS before submitting PSI requests. This complies with the intent of our recommendation.

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## Appendix A. Scope and Methodology

We reviewed the propriety of the expenditures made to transfer PSI functions from DSS to OPM. Before the transfer of its PSI functions to OPM, DSS had about 2,600 employees in three primary missions: the PSI program, the NISP, and the Security Education Training and Awareness Program. We reviewed DoD records and invoices to reconcile with supporting records provided by OPM. DoD data contained 1,028,732 records attributed to 784,442 unique SSNs and OPM data contained 1,076,075 text records attributed to 630,176 unique SSNs.

With the cooperation and coordination of the OPM Inspector General we judgmentally selected 66 sample items, with associated costs of \$83,046 from OPM's 1,076,075 text records used for DoD PSI billing records. The judgmental sample selection came from three different pools. The first pool was 7,242 SSNs valued at \$1,856,035 that were identified from the 630,176 unique SSNs to test for their potential of duplicate PSIs. From the 7,242, we judgmentally selected 46 for review. The second pool was 262 blank SSNs that were identified from the 1,076,075 record main file. From the 262 SSNs, we selected 10 records for review. The third pool was 222,919 of nonconforming OPM case numbers. From the third pool, we judgmentally selected 10 case numbers for review.

The sample review was conducted at the OPM Federal Investigative Services Division, Iron Mountain record facility, Boyers, Pennsylvania. We examined the investigation types and the corresponding billing rates for conformity with OPM's established DoD Investigations billing rates and related supporting documents. We held discussions with key personnel from OPM's Federal Investigative Service Division on issues we noted during the sample review. Each sample unit was examined jointly by OPM Inspector General and DoD Inspector General auditors.

We interviewed personnel responsible for DoD PSI billing and payment processes, at the Army Military Intelligence, Washington, D.C.; the Air Force Central Adjudication Facility, Washington, D.C.; and the Naval Criminal Investigative Service, Washington, D.C. We also held discussions with officials from the OUSD(C)/CFO, Washington, D.C.; the Office of the Under Secretary of Defense for Intelligence, Washington, D.C.; the Defense Security Service Headquarters, Alexandria, Virginia; and Office of Personnel Management, Washington, D.C.

We performed this audit from November 2005 through June 2006 in accordance with generally accepted government auditing standards.

**Scope Limitation.** Our scope was limited because we did not include a comprehensive test of management internal controls.

**Use of Computer-Processed Data.** We requested and received computer-processed data downloads from both the OPM Personnel Investigation Processing System and from DoD JPAS for the period October 1, 2004, through September 30, 2005. Both databases exceeded 1 million records and contained PSI records for more than 0.5 million SSNs. We performed a limited assessment of data integrity by comparing the data received from each system. Our previous audit (D-2001-136, "Defense Clearance and Investigations Index Database," June 7, 2001), identified problems with data integrity in the

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adjudication data system used to populate JPAS. We observed that data integrity remains an issue in JPAS. Although we did not test the reliability of the computer processed data, we treated the data as questionable but still usable.

**Use of Technical Assistance.** DoD Office of Inspector General, Quantitative Methods Directorate and Data Mining Directorate resources helped us to assess the method of sampling and analyzing the data downloads from OPM and JPAS. We used Quantitative Methods Directorate analysts to design a potential method of sampling. We used Data Mining Directorate ACL (Audit Command Language) software to analyze and compare computer-processed data downloads from the two systems.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Personnel Security Clearance Program high-risk area.

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## **Appendix B. Prior Coverage**

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoD IG) have issued nine reports discussing personnel security investigations. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### **GAO**

GAO Report No. GAO-05-842T “Some Progress Has Been Made but Hurdles Remain to Overcome the Challenges that Led to GAO’s High-Risk Designation,” June 28, 2005

GAO Report No. GAO-05-207, “High Risk Series,” January 2005

GAO Report No. GAO-04-632, “Additional Steps Can Be Taken to Reduce Backlogs and Delays in Determining Security Clearance Eligibility for Industry Personnel,” May 2004

GAO Report No. GAO-04-344, “DoD Needs to Overcome Impediments to Eliminating Backlog and Determining Its Size,” February 2004

GAO Report No. GAO-01-465, “More Consistency Needed in Determining Eligibility for Top Secret Clearances,” April 2001

### **DoD IG**

DoD IG Report No. D-2006-077, “DoD Personnel Security Clearance Process at Requesting Activities,” April 19, 2006

DoD IG Report No. D-2001-136, “Defense Clearance and Investigations Index Database,” June 7, 2001

DoD IG Report No. D-2001-112, “Acquisition Management of the Joint Personnel Adjudication System,” May 5, 2001

DoD IG Report No. D-2001-065, “DoD Adjudication of Contractor Security Clearances Granted by the Defense Security Service,” February 28, 2001

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Under Secretary of Defense for Intelligence  
Director, Defense Security Service  
Director, Program Analysis and Evaluation

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Auditor General, Department of the Air Force

### **Non-Defense Federal Organization**

Office of Management and Budget  
Office of Personnel Management

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Homeland Security and Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (continued)**

House Committee on Oversight and Government Reform

House Subcommittee on Government Management, Organization, and Procurement,  
Committee on Oversight and Government Reform

House Subcommittee on National Security and Foreign Affairs,  
Committee on Oversight and Government Reform

House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the  
Census, Committee on Oversight and Government Reform

# Under Secretary of Defense for Intelligence Comments



UNDER SECRETARY OF DEFENSE  
5000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-5000

FEB 09 2007

## MEMORANDUM FOR THE DEPUTY INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

Subject: Report on Transition Expenditures for DoD Personnel Security  
Investigations for FY 2005, Project No. D2005-D000FB-0065.

We are in receipt of your draft report, subject above, dated November 28, 2006. Many of the issues identified in your report have been addressed and corrective actions have begun. A significant step was an amendment to the Memorandum of Agreement (MOA) between the Department of Defense (DoD) and the Office of Personnel Management (OPM) that has corrected the weaknesses in the initial agreement and standardized the DoD billing arrangement with OPM.

The below comments are provided in response to the specific recommendations for this office. The Acting Director, Defense Security Service (DSS) will provide comments under separate cover.

**Recommendation 1a.** Allocate funds needed to update the Joint Personnel Adjudication System (JPAS).

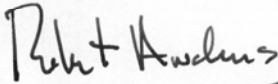
**Response:** Partially concur. We agree that JPAS should be updated, but disagree that it is a USD(I) responsibility to fund an upgrade. JPAS is the DoD system of record for personnel security information and funding for the system is a department-wide responsibility. Funds have been requested through appropriate budget mechanisms and USD(I) will continue to seek solutions to the funding shortfalls.

**Recommendation 1b.** Develop a financial plan as stipulated in the Memorandum of Agreement.

**Response:** Partially concur. The amendment to the MOA executed in October 2006 terminated any obligation to indemnify OPM for losses incurred from the transfer. As such, the MOA no longer requires a financial plan. However, USD(I) acknowledges the need for an overall financial plan for the security program and has designated DSS as the entity responsible for the development of the plan in coordination with the components and Security Directorate. The plan will have two components: one will address how the department will pay for personnel security investigations and the other will focus on how the department funds the implementation of the personnel security improvement plan which is designed to streamline the entire personnel security clearance process.



While we partially concur with the specific recommendations addressed to this office, we concur with the overall report and will provide necessary support to DSS to fulfill those recommendations within their control and funding limitations. We appreciate the opportunity to comment on this report and look forward to working with your staff on follow-on efforts.

  
Robert Andrews 09 FEB 07

# Defense Security Service Comments



DEFENSE SECURITY SERVICE  
1340 BRADDOCK PLACE  
ALEXANDRIA, VA 22314-1651

**FEB 05 2007**

MEMORANDUM FOR THE DEPUTY INSPECTOR GENERAL FOR AUDITING,  
DEPARTMENT OF DEFENSE

Subject: Report on Transition Expenditures for DoD Personnel Security Investigations  
for FY 2005, Project No. D2005-D000FB-0065.

In response to your memorandum of November 28, 2006, subject as above, the Defense Security Service (DSS) is pleased to provide the following points and discussion related to findings and recommendations in the draft report.

As you know, the Director, Office of Personnel Management (OPM) and the Deputy Secretary of Defense signed a Memorandum of Agreement (MOA) on October 16, 2004, setting forth the general terms and conditions of the functional transfer of the Personnel Security Investigations (PSI) function from the Department of Defense (DoD) to OPM. This MOA states that an *"on-going joint DoD-OPM audit team will audit PSI's financial status. Based on these audit results, DoD and OPM will agree upon financial adjustments to the DoD payments, to be made at least once a year."* The previous Acting Director, DSS, requested that the DoDIG initiate such a joint audit in August 2005 in order to determine whether DoD payments to OPM for PSI services were made in accordance with the MOA. In requesting the audit, the then-Acting Director, DSS, referred to the terms of the MOA and her concerns that OPM had not provided DoD with the basis for the increased fees charged for DoD PSIs or for the DoD PSI surcharge. The draft of subject report indicates your office coordinated with the OPM Office of Inspector General (IG), which agreed to assess whether OPM conformed to the terms of the MOA and to review the investigation rate structure and adjustments charged for services.

DSS does not regard separate audits by DoD and OPM of each agency's own records as meeting the intent of the MOA. The October 2004 MOA refers to a "joint audit team," and further insight into the intent of this term of the MOA is supplied by an amendment to the October 2004 MOA. On October 17, 2006, DoD and OPM executed an Amendment to the original MOA, and this MOA states: *"DoD and OPM agree to review the soon-to-be released Inspector General (IG) reports regarding personnel security investigations and to enter into senior level discussions ..."* Conducting an ongoing joint audit, as agreed to in the original MOA, and as reaffirmed in the Amendment, will ensure that DoD payments to OPM for PSIs are appropriate and are substantiated by actual OPM costs. Your draft report addresses only the DoD audit results pertaining to the requirements of the original MOA. We request that your final report include discussion and analysis of the findings and recommendations of the OPM audit, or a statement regarding the status of the OPM audit to include the expected completion date. We

further request that OPM and DoD conduct all future audits jointly, not separately by each agency.

DSS provides the following in response to the findings and recommendations of the draft report:

***Finding.*** *DoD did not ensure accuracy of OPM invoices before making payment for personnel security investigations. In addition, DoD did not develop a financial plan to offset potential OPM losses. DSS internal controls over the personnel security investigation process were insufficient to ensure all requirements in the Agreement were met. And DSS has been handicapped by inconsistent management and an inadequate automated PSI invoice tracking system. As a result, DoD could not validate \$355.1 million invoiced for personnel security investigations in FY 2005 and ensure that the projected investigation costs of more than \$600 million in FY 2006 were accurate.*

***Recommendation 1.b*** – *That the Under Secretary of Defense for Intelligence (USD(I)) develop a financial plan as stipulated in the MOA. This recommendation is related to the material internal control weakness for DSS under “Review of Internal Controls” that states “DSS did not have internal controls in place over the PSI payment process to ensure that all requirements in the Agreement were met...”*

**DSS Comments:** DSS acknowledges that at the time of your audit we were not validating OPM invoices prior to payment at the direction of the past DSS Acting Director and DSS did not set up a process for validation after payment due to a lack of resources. However, under the current Acting Director DSS has focused on improving internal controls over the PSI payment process. DSS and OPM formed a working group to focus on and resolve issues concerning the PSI payment process. OPM agreed to modify its internal system to provide additional information to assist in validating their invoices. We now understand the cause of OPM charges for duplication of investigative effort by OPM and are in the process of disseminating guidance to the DoD community to reduce or eliminate the occurrences of duplicate requests. DSS had made substantial progress and will continue to work with OPM to validate the PSI bills. DoD acknowledged the past lack of compliance with the MOA but DoD did meet the requirement for transferring funds to OPM when they were requested. We recommend that you include information regarding the October 17, 2006 Amendment to the MOA (“Amendment”) in your report. Even though the MOA was amended, DSS agrees that the Department still needs a comprehensive plan to pay for PSI services. We believe the Department is moving in the appropriate direction as Program Budget Decision (PBD) Number 704 now requires the DoD Departments and Agencies to pay for their respective clearances for industry as well as military and civilian personnel. The Amendment of the MOA between DoD and OPM required OPM to reduce the premium retroactively for a portion of 2006, resulting in a refund of \$5.01 million to DoD, and it eliminated the premium entirely beginning in FY 2007 and for all future years. The Amendment also stipulated that OPM will hold adequate revenue from DoD to cover obligated expenses, plus an additional three days of operating expenses, and OPM refunded an additional \$2 million in excess of these amounts to DoD at the close of FY 2006. The Amendment also

eliminated, beginning on the effective date of the Amendment, the requirement for DoD to indemnify OPM against all losses incurred from the transfer of the PSI function. DoD and OPM further agreed in the Amendment to review the DoDIG and OPM IG reports regarding PSIs and to enter into senior level discussions to ensure that: "DoD is being charged only for costs reasonably resulting from services requested by DoD; OPM uses a fair and reasonable method to determine price from cost for its investigations; OPM is costing and executing its contracts in a fair and effective manner; and, there is no augmentation of OPM appropriation through charges to DoD." DoD also agreed to implement a thorough review of the process for providing payment to OPM for security investigations and to make changes where necessary to improve its payment timeliness to OPM. The DSS Inspector General's Office provided a copy of the Amendment to your office on January 4, 2007.

**Recommendation 2.a** – *That the Director, DSS, develop written policy and procedures on the PSI invoice process to include the reconciliation, certification, and payment of the invoice.* This recommendation is related to the material internal control weakness for DSS under "Review of Internal Controls" that states "*DSS did not have internal controls in place over the PSI payment process to... provide consistent management to establish policies and procedures...*"

**DSS Comments.** DSS partially concurs. We agree that strengthening control activities and monitoring payments for PSIs will help ensure effective management of DoD PSI funds. However, at this time DSS must defer to the DoD Components for reconciliation of the bills from OPM. In general, DSS serves as a conduit between DoD Components and OPM for PSI invoices. With the exception of Industrial PSIs (and DSS exercises little control even over these), DSS has no control or oversight over submission of requests for investigations, subsequent modification of the request (upscope, downscope, or cancellation), and payment for services related to PSI from the DoD Components. When DSS receives OPM invoices for PSIs conducted for any DoD Component, DSS identifies the appropriate bill payer and provides the billing data to that entity for reconciliation and validation. DSS recognizes that the current PSI reconciliation process is not working well and that DSS should take the lead in the development of a standardized reconciliation process for the DoD Components. We are committed to making improvements in this area and will work with the Office of the Undersecretary of Defense (Intelligence) (USD(I)) to facilitate policy changes that will authorize DSS to develop and monitor a standardized reconciliation process.

DSS developed a written Standard Operating Procedure (SOP) in August 2006 for the PSI certification and payment process. DSS has three Certifying Officers for PSI invoices and all three were formally appointed to their positions through DD Forms 577, "Appointment/Termination Record – Authorized Signature." The USD(I) is addressing the material weakness noted by the DoDIG regarding lack of consistent DSS management to establish policies and procedures. A selection for the DSS Chief of Staff position was made on January 25, 2007; positions for a permanent Director and Deputy Director were advertised and decisions are pending. As discussed below, DSS is working to improve internal controls and billing processes.

DSS continues to work with OPM to effect changes to the monthly billing data necessary to review and validate the monthly PSI invoices.

- OPM modified its internal systems to reflect “case type,” “case status,” and “access level” codes consistent with the categories outlined in the OPM Federal Investigation Notices. These codes, directly linked to the rate structure, provide a greater degree of precision in identifying charges and ancillary fees per case. Implementation of these codes also resolves the important need to differentiate between PSIs conducted for security clearance adjudications, and those PSIs conducted for suitability/trustworthiness determinations. Distinguishing clearly between these two types of investigations is important because the bills for each are charged to different accounts within DoD.
- DSS implemented a longitudinal “case tracking” database utilizing Microsoft Access and ACL (Audit Command Language) software to track the history of PSI submissions by Social Security Number (SSN). This process identifies duplicate submissions and case type changes so DSS can work to recover overpayments from OPM.
- DSS requested OPM to add the SSN as a front end edit to avoid duplicate billing entirely. This will enable their system, at case opening, to flag whether their system shows a valid existing investigation or an investigation in progress, which duplicates the existing Defense Industrial Security Clearance Office (DISCO) process for industrial cases.
- DSS prepared a tutorial for the DoD community on how to prepare and validate requests for PSIs. The tutorial instructs the requester to review JPAS prior to submitting requests to OPM, and it stresses the importance of following OPM case cancellation procedures when an investigation is no longer needed. This tutorial will be released in conjunction with a release change to JPAS scheduled for February 2007.

These efforts will result in cost savings to DoD.

**Recommendation 2.a. – Regarding Verification of OPM PSI Charges**

The DoDIG draft report also states in connection with Recommendation 2.a. that “*DoD relied on the invoice information OPM provided to determine the amounts to pay OPM for PSI services. DoD accepted OPM investigation records as the primary source to verify OPM PSI charges. DSS continued to certify payments to OPM without substantiating the validity of OPM invoices.*”

**DSS Comments:** DSS did certify payments to OPM without validation prior to payment by direction of the previous Acting Director but those procedures were changed by the current Acting Director. DSS personnel have spent a great deal of time analyzing the OPM billing function and through this analysis we have gained a better understanding of the OPM process, enabling us to begin validating the PSI invoices and providing information to the DoD Components so they can validate as well. DoD Financial Management Regulation (FMR), Volume 5, Chapter 33, “Department Accountable Officials, Certifying Officers and Review Officials,” April 2005, states that certifying officers are responsible for certifying a voucher for payment and for the accuracy of facts

stated on a voucher and in supporting documents and records. The FMR, Volume 5, Chapter 33, Paragraph 330303 also states *"The certifying officer may rely on data received from automated systems that have been certified as accurate and reliable in accordance with Section 4 of the Federal Managers Financial Integrity Act (FMFIA), 31 U.S.C. 3512...."* On January 10, 2007, the DSS Deputy IG spoke with a representative of the OPM IG, who subsequently verbally confirmed that the OPM system that invoices DoD for PSI services is certified as accurate and reliable in accordance with Section 4 of FMFIA. The DSS IG asked the OPM IG to provide a written FMFIA certification, which DSS has not received. The DSS IG continues to follow up on this request. In lieu of the written certification from OPM, the DSS IG reviewed the "Federal Financial Management Report" for both 2005 and 2006 issued by the Executive Office of the President, Office of Management and Budget (OMB), and both of these reports reflect that OPM did not report any non-conformances with government-wide financial systems requirements pursuant to Section 4 of FMFIA. DSS personnel continue to analyze OPM invoices to gain a better understanding of OPM billing. DSS shares information obtained from this analysis with the DoD Components, which will result in savings to DoD.

**Recommendation 2.b** – *That the Director, DSS, develop a standard methodology for estimating budget and potential PSI requests from the DoD Components. This recommendation is related to the material internal control weakness for DSS under "Review of Internal Controls" that states "DSS did not have internal controls in place over the PSI payment process to ...develop adequate budget and projections for future investigation requests ..."*

**DSS Comments:** DSS partially concurs with this recommendation. DSS does believe that a unified, standard methodology for projecting DoD PSI requests is a necessary part of the budgeting process and we will work with USD(I) for a policy change that would give DSS the authority to develop budget methodology for all DoD Components. DSS does not have the authority to develop budget methodology for all DoD Components at this time, so it is difficult to see how not having budget projections for future investigation requests can reasonably be described as a DSS material weakness. It should be noted that in the October 17, 2006 Amendment to the MOA, DoD agreed to develop a process to provide OPM with annual workload projections, sorted by investigation type, that are accurate and timely to support the requirements of the Intelligence Reform and Terrorism Prevention Act of 2004. DSS is working with the U.S. Air Force (USAF) modeling group to assess the feasibility of adapting the USAF PSI model and methodology for projecting industrial PSI submissions. DSS is pursuing the additional funding necessary to establish a Clearance Oversight Office, which would validate projections of investigative requirements by linking position sensitivity levels and funding with specific projections of DoD's future acquisition needs. This will assist DSS in building an appropriate budget for industry PSIs.

**Recommendation 2.c** – *That the Director, DSS, obtain a general and application controls review of JPAS to ensure that other requirements are addressed prior to its modification.*

**DSS Comments:** DSS concurs with this recommendation. On November 29, 2006, the DoDIG announced Project Number D2007-D000FB-0064.000, "Audit of Controls and Compliance of the Joint Personnel Adjudication System." DSS is partnering with the DoDIG to support the audit field work and resolve any findings. In anticipation of the JPAS audit, DSS conducted a limited self-assessment of the JPAS general and application controls and is correcting noted deficiencies now. The DoDIG audit is scheduled to be completed in August 2007.

**Recommendation 2.d** – *That the Director, DSS, modify JPAS so that it has the ability to:*

*(1) Perform one-to-one reconciliation between DoD PSI requests to the OPM invoice for the related PSI service. This recommendation is related to the material internal control weakness for DSS under "Review of Internal Controls" that states "DSS did not have internal controls in place over the PSI payment process to ...upgrade the automated system to track PSI invoices ..."*

*(2) Screen duplicate and unnecessary PSI requests and provide audit trails so that trends can be analyzed.*

**DSS Comments:** DSS concurs with recommendation 2.d (1) and will continue to pursue funding for a JPAS enhancement to provide this capability. DSS will resubmit this funding requirement during the mid year review (second Qtr of FY 07) as well as in the Program Budget cycle (Sep 2008 – for the out years of 2010 – 2015) as required.

DSS non-concurs with recommendation 2.d (2). JPAS, via the OPM Electronic Questionnaire for Investigations Processing (e-QIP) form, is the vehicle used by DOD security offices to request PSIs. However, authority for initiating and validating PSI requests rests with each requesting organization's Security Office. In addition, the DoD Components are responsible for budgeting for clearances. PBD Number 704 expands that responsibility to include funding for PSIs for Industry, and directs USD(I) and USD (Acquisition, Technology, and Logistics) to establish a working group to implement changes needed to allow the military departments to assume responsibility for funding of PSI requests for industry in FY 2010. This will further the decentralization of the process. DSS does use JPAS data to track and analyze trends.

Finally, DSS requests that the following technical corrections be made to the report prior to its issuance.

- Amend the paragraph pertaining to the MOA on page 1, first bullet, to indicate that, under the terms of the MOA, losses were to be covered by DoD **during a three year period from the start of the transfer** (which is reflected in the draft report as a second bullet in that section).
- Amend the last paragraph on page 1 to read "The Agreement also states that OPM may charge DoD for PSIs at current DoD rates, plus annual price adjustments, plus **up to** a 25 percent premium ..."

- 
- Amend the first paragraph on page 2, to read "...OPM assumed managerial control of the PSI functions and DoD began purchasing *the bulk of* its PSI services from ..."
  - Recommendation 2.b., page 9, is that the Director, DSS, develop standard methodology for estimating budget and potential PSI requests from the DoD Components. Placing the responsibility for this recommendation with DSS conflicts with page 7, DSS Internal Controls Summation, which states "...DoD should develop a budget methodology that would accurately estimate the needed funds and numbers of potential PSI requests."

DSS appreciates the opportunity to comment on the draft report. If you have any questions or require additional information, please do not hesitate to contact me or Mr. John Kinzel, DSS Inspector General, at 703-325-5318.

  
KATHLEEN M. WATSON  
Acting Director

## **Team Members**

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# Inspector General Department of Defense

