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Acronyms

CCA	Clinger-Cohen Act
CIO	Chief Information Officer
CONOPS	Concept of Operations
DAA	Designated Approving Authority
DBSMC	Defense Business Systems Management Committee
DEAR	Database Enhancement and Restructure
DFAS	Defense Finance and Accounting Service
DITSCAP	DoD Information Technology Security Certification and Accreditation Process
ESG	Executive Steering Group
FFMIA	Federal Financial Management Improvement Act
GAFS	General Accounting and Finance System
IAPS	Integrated Accounts Payable System
IRB	Investment Review Board
IRWG	Investment Review Working Group
NDAA	National Defense Authorization Act
OSD	Office of the Secretary of Defense
SSAA	System Security Authorization Agreement



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

February 7, 2007

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE BUSINESS TRANSFORMATION
AGENCY

SUBJECT: Report on Integrated Accounts Payable System Compliance with the
Defense Business Transformation System Certification Criteria (Report
No. D-2007-056)

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 Mr. Michael Perkins at (703) 325-3557 (DSN 221-3557) or Ms. Yolanda C. Watts at (703) 428-1071 (DSN 328-1071). See Appendix B 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 cursive script, 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. 2007-056

February 7, 2007

(Project No. D2006-D000FB-0164.000)

Integrated Accounts Payable System Compliance with the Defense Business Transformation System Certification Criteria

Executive Summary

Who Should Read This Report and Why? DoD personnel who prepare, review, certify, and approve Defense business system investments will find this report of interest. It describes the Defense Finance and Accounting Service (DFAS) policies and procedures used to certify and approve Defense business system modernizations under \$1 million. Specifically, this report discusses the procedures used to approve the FY 2006 modernization efforts for the Integrated Accounts Payable System (IAPS).

Background. The Deputy Under Secretary of Defense (Business Transformation) requested that we review DoD Component compliance with the Defense Business Transformation System Certification Criteria. This report is one in a series and discusses the compliance of IAPS with the Defense Business Transformation System Certification Criteria. Subsequent reports will discuss other business systems compliance.

The “National Defense Authorization Act for Fiscal Year 2005” (NDAA) states that funds appropriated for Defense business system modernizations in excess of \$1 million may not be obligated unless certified by the Designated Approving Authority and approved by the Defense Business Systems Management Committee. To comply with the NDAA, the Defense Business Systems Management Committee issued the Investment Review Board Concept of Operations. The Concepts of Operations provides guidance on certifying Defense business system investments in excess of \$1 million, which require an Office of the Secretary of Defense-level review and approval. Defense business system investments under \$1 million do not require an Office of the Secretary of Defense-level review and approval, unless designated as a special interest program.* Investments under \$1 million are subjected to the Component-level review and approval process. The Component-level investment review processes should be consistent with the NDAA and the Concept of Operations.

IAPS is a DFAS automated system. It supports the payment of commercial vendors and provides support for standard Electronic Data Interchange transactions, thus allowing full support for DoD and electronic commerce initiatives.

Results. DFAS did not implement sufficient controls to ensure that the modernization decision for IAPS was based on adequate documentation. As a result, the DFAS Executive Steering Group approved the modernization for \$759,000 based on unsupported information. Without adequate standard procedures and controls for

* Special interest is based on technological complexity, Congressional interest, or program criticality to the achievement of a capability or set of capabilities. Special interest is also based on whether the program is a joint program or whether the resources committed to the program are substantial.

modernizations under \$1 million, the DFAS Executive Steering Group may continue to approve procurements that are not adequately supported and reviewed. Therefore, the DFAS Executive Steering Group needs to take corrective action to ensure that detailed instructions are developed, supporting documentation is maintained, and review procedures are developed and followed (see the Finding section of the report for the detailed recommendations).

Management Actions. During the audit, the Defense Finance and Accounting Service Investment Review Working Group acknowledged the need to improve their investment review process. They stated that they have begun working to refine their investment review process by refining their validation process and developing FY 2007 guidance and instructions.

Management Comments and Audit Response. The Director, Information and Technology responding for the Director, DFAS partially agreed with the need for better documentation and did not agree with the conclusion that the IAPS modernization was based on unsupported information. The Director stated that the 2005 NDAA does not direct Investment Review Boards to require Clinger-Cohen Act or Federal Financial Management Improvement Act compliance. In addition, the CCA comments in the report note items that the audit team did not review rather than focusing on the Investment Review Working Group's examination and rationale. The Director disagreed with the conclusion that the Database Enhancement and Restructure modernization was not supported because an updated System Security Authorization Agreement was not in place. However, the Director indicated that the System Security Authorization Agreement was updated with information about the Database Enhancement and Restructure modernization in September 2006. We reviewed the DFAS Investment Review Process procedures and found that system managers were required to certify that their systems were aligned with applicable policies, laws, and regulations. Specifically, system managers were required to indicate if their system was compliant with the Clinger-Cohen Act, the DoD Information Technology Security Certification and Accreditation Process, and the Federal Financial Management Improvement Act. Regarding the Director's comments on the audit team's review of Clinger-Cohen Act compliance, Investment Review Working Group officials stated that they created a requirements table for reviewing IAPS compliance with the Clinger-Cohen Act. We considered the Investment Review Working Group examination and rationale in auditing the Investment Review Board process by examining the contents of the table. As indicated in this report, the Investment Review Working Group referenced six documents used to validate IAPS compliance with the Clinger-Cohen Act. However, three of the six documents were either not available, not required in the certification package, or did not contain updated information.

The Director, Information and Technology concurred with our recommendations and stated that for FY 2007, DFAS will require that all modernization efforts have the same documentation and level of review, regardless of whether the investment amount is under or over \$1 million. In addition, DFAS established a system document repository, provided mandatory training for system managers, and published standard review criteria. A discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

Table of Contents

Executive Summary	i
Background	1
Objectives	3
Review of Internal Controls	4
Finding	
DFAS Investment Review Process for Investments Under \$1 Million	5
Appendixes	
A. Scope and Methodology	15
B. Report Distribution	17
Management Comments	
Defense Finance and Accounting Service	19

Background

The Deputy Under Secretary of Defense (Business Transformation) requested that we review DoD Component compliance with the Defense Business Transformation System Certification Criteria. This report is one in a series and discusses the compliance of the Integrated Accounts Payable System with the Defense Business Transformation System Certification Criteria. Subsequent reports will discuss other business systems compliance.

National Defense Authorization Act. On October 28, 2004, Congress passed Public Law 108-375, “Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (NDAA).” Section 2222 of the NDAA states that funds appropriated for Defense business modernizations in excess of \$1million may not be obligated unless the Designated Approving Authority (DAA) certifies the modernization to the Defense Business Systems Management Committee (DBSMC), and the DBSMC approves the certification. The NDAA defines business system modernizations as, “the acquisition or development of a new defense business system or any significant modification or enhancement of an existing system.” In addition, the NDAA required the Secretary of Defense to delegate the review, approval, and oversight of the Defense business systems to the following four Office of the Secretary of Defense (OSD)-level approval authorities:

- Under Secretary of Defense for Acquisition, Technology, and Logistics;
- Under Secretary of Defense (Comptroller)/Chief Financial Officer;
- Under Secretary of Defense for Personnel and Readiness; and
- Assistant Secretary of Defense for Networks and Information Integration and Chief Information Officer of the Department of Defense.

Each approving authority is required to establish an investment review process that periodically (at least annually) reviews all business system investments. In addition, the process should include an Investment Review Board (IRB) review and approval for each Defense business system.

Section 186 of the NDAA directed the Secretary of Defense to establish the DBSMC. The DBSMC is responsible for coordinating Defense business system modernization initiatives to maximize benefits and minimize costs, and ensure that funds are obligated for Defense business systems in a manner consistent with section 2222 of the NDAA.

Investment Review Boards Concept of Operations. On June 2, 2005, the DBSMC issued the Investment Review Board Concept of Operations (CONOPS). The CONOPS integrates policies, specifies responsibilities, and establishes processes to comply with section 2222 of the NDAA. It outlines the investment

review process that all IRBs, Components, chief information officers (CIO), and program managers should follow if they have responsibility for business system investments.

The CONOPS introduces a structured investment review and certification process that includes determining review and certification requirements, Component review, and OSD-level review and certification. The CONOPS identifies three levels of certification review or tiers. Tier certification processes are established based on the program scope, cost, and complexity. The tier process also provides flexibility if the program has been designated as a special interest program.¹ The CONOPS defines the following tier certification processes.

- Tier 1 IRB: certification processes that apply to Major Automated Information Systems or programs.
- Tier 2 IRB: certification processes that apply to modernizations and investments greater than \$10 million to less than the Major Automated Information System threshold,² or those designated as special interest.
- Tier 3 IRB: certification processes that apply to those modernizations and investments greater than \$1 million to less than \$10 million.

The CONOPS provides guidance on preparing, reviewing, and certifying Defense business system investments in excess of \$1 million, which require an OSD-level review. Defense business system investments under \$1 million do not require an OSD-level review and approval, unless designated as a special interest program. Instead, investments under \$1 million require a Component-level review and approval process.³ The CONOPS requires Components to establish their own governance structures for investment review to support their transformation initiatives. The Component investment review processes should be consistent with the NDAA and the CONOPS. Other than Component-developed procedures, there are no criteria for reviewing and approving investments under \$1 million.

Defense Finance and Accounting Service Investment Review Process. The Defense Finance and Accounting Service (DFAS) developed a Component-level review and approval process. For FY 2006 modernization investments under \$1 million, DFAS developed and used workbooks. The workbooks were modeled after the standard set of IRB criteria outlined in the CONOPS. The workbooks contained system-specific questions. System managers were required to certify if their automated systems were aligned with applicable policies, laws, and regulations. Specifically, system managers were required to indicate if their system was compliant with the Clinger-Cohen Act (CCA), DoD Information Technology Security Certification and Accreditation Process (DITSCAP), and the Federal Financial Management Improvement Act (FFMIA).

¹ Special interest is based on technological complexity, Congressional interest, or program criticality to the achievement of a capability or set of capabilities. Special interest is also based on whether the program is a joint program or whether the resources committed to the program are substantial.

² The current Major Automated Information System threshold is \$32 million.

³ The process is referred to as a tier 4 process.

Clinger-Cohen Act. The CCA of 1996 establishes a top-down restructuring of Federal information technology acquisition programs. The goal of the CCA is to improve the acquisition and management of Federal information technology programs. The CCA requires the establishment of an efficient and effective information technology program for the Federal Government.

DoD Information Technology Security Certification and Accreditation Process. The DITSCAP establishes a standard Department-wide process, set of activities, general tasks, and management structure to certify and accredit information systems and maintain the information assurance and security posture of the Defense information infrastructure throughout the life cycle of each system. The accreditation process is a formal declaration by the DAA that an information system is approved to operate in a particular security mode using a prescribed set of safeguards at an acceptable level of risk.

Federal Financial Management Improvement Act. The FFMIA was created in 1996 to ensure consistent accounting by an agency from one fiscal year to the next. FFMIA also provides uniform accounting standards throughout the Federal Government. Federal financial data, including the full costs of Federal programs and activities, are required so that programs and activities can be considered based on their full costs and merits.

Integrated Accounts Payable System. For FY 2006, a workbook was completed for a \$759,000 modernization to the Integrated Accounts Payable System (IAPS). IAPS is a DFAS automated system. IAPS supports the payment of commercial vendors conducting business with the Air Force, Air National Guard, National Geospatial Intelligence Agency, and the Defense Security Service. The system computes accounts payable due dates, payment amounts, and interest payments. IAPS processes commitment transactions electronically to the General Accounting and Finance System (GAFS), and payment authorization data to the Central Disbursing System. In addition, IAPS provides support for standard DFAS Electronic Data Interchange transactions, allowing full support for DoD and DFAS electronic commerce initiatives such as Wide-Area Workflow, Web Invoicing System, the Government Purchase Card Program, and PowerTrack.

Objectives

Our overall audit objective was to determine whether IAPS was properly certified and accredited in accordance with the Defense Business Transformation System Certification Criteria. Specifically, we determined if IAPS complied with the Investment Review Process. Although an announced objective, we did not review the management control program as it related to the overall objective because a management control program has not been developed for the Investment Review Process. See Appendix A for a discussion of the scope and methodology.

Review of Internal Controls

DFAS did not implement sufficient controls to ensure that the modernization decision for IAPS was based on adequate documentation. As a result, the DFAS Executive Steering Group approved the modernization for \$759,000 based on unsupported information. Without adequate standard procedures and controls for modernizations under \$1 million, the DFAS Executive Steering Group may continue to approve procurements that are not adequately supported and reviewed. See the Finding section of the report for a complete discussion of our review.

DFAS Investment Review Process for Investments Under \$1 Million

DFAS did not implement sufficient controls to ensure that the modernization decision for IAPS was based on adequate documentation. This occurred because:

- supporting documentation was not always maintained or current;
- the DFAS Investment Review Working Group (IRWG) did not provide adequate guidance for the IAPS system manager on how to complete the IRB workbook; and
- the IRWG did not provide adequate review procedures for the IRB workbook.

As a result, the DFAS Executive Steering Group (ESG) approved the IAPS modernization for \$759,000 based on unsupported information. Without adequate standard procedures and controls for modernizations under \$1 million, DFAS may continue to approve procurements that are not adequately supported and reviewed.

DFAS Investment Review Process

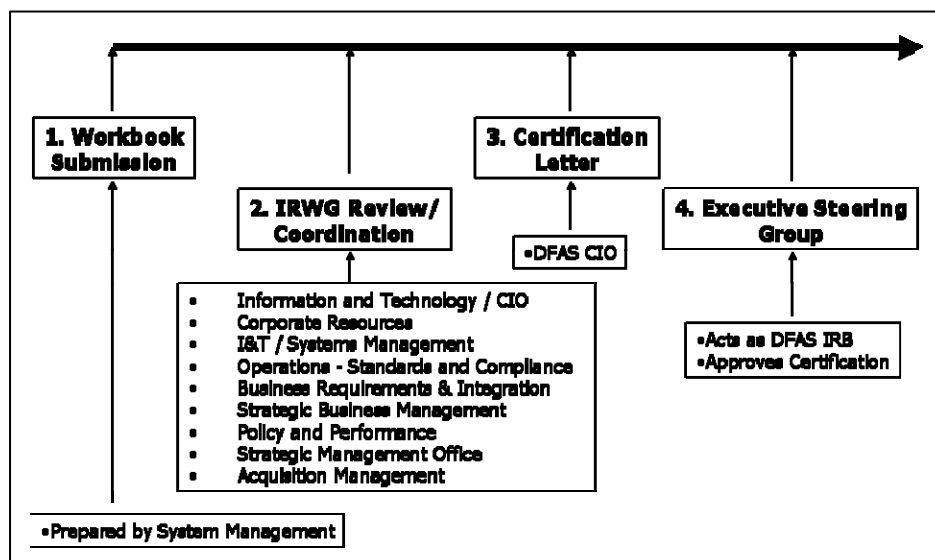
On September 2, 2005, DFAS established their own investment review process and governance structure to support Component transformation initiatives and to comply with the CONOPS. DFAS designated the CIO as the headquarters-level authority that is accountable for business system investments. The CIO acts as the Pre-Certification Authority for business system modernizations or enhancements under \$1 million. The CIO certifies and submits investment proposals to the ESG.

DFAS Executive Steering Group. The ESG is the agency's primary, executive-level, decision-making body that reports to the Director of DFAS. Among many other responsibilities, the ESG oversees the DFAS portfolio management initiatives. In doing so, the ESG serves as the Component-level IRB for DFAS. They review and approve investment proposals based on decision criteria such as the CONOPS and internal DFAS policies and procedures.

DFAS Investment Review Working Group. The ESG established the DFAS Information Technology IRWG to conduct due diligence reviews and provide input on information technology portfolio and investment issues to the ESG. It is chaired by the Deputy CIO, and composed of a representative from each DFAS directorate or business line. The IRWG coordinates and resolves investment

issues that arise in the Portfolio Management Processes.⁴ They also recommend approval of investment proposals to the ESG.

DFAS IRB Process for Investments Under \$1 Million. The IRWG assists in overseeing the Investment Review Process. Prior to obligating funds for modernizations and enhancements under \$1 million, DFAS required that system managers complete an IRB workbook providing current system information. The IRWG pre-populated the workbooks to support system managers in meeting review requirements. System managers were required to complete the workbook by answering system-related questions and providing supplemental documents such as architecture diagrams. The system managers were instructed to submit the required materials to the IRWG through the DFAS ePortal.⁵ The workbooks and supplemental material were reviewed by the IRWG. If the investment proposals were satisfactory, the IRWG recommended certification to the CIO. The CIO would then certify and recommend approval of the investment proposal to the ESG. See the following diagram for the DFAS Investment Review Process for investments under \$1 million.



DFAS IRB Process for Investments Under \$1 Million

FY 2006 Modernization. During FY 2006, DFAS requested \$759,000 in funding to complete final systems acceptance testing and implement a major database restructure for IAPS known as the Database Enhancement and Restructure (DEAR). The DEAR modernization would allow IAPS to support electronic commerce initiatives and add functionality to support electronic interfaces.

⁴ Portfolio Management is part of the DFAS governance process for information technology investment management and review.

⁵ The DFAS ePortal is a web-based tool that contains IRWG guidance, templates, meeting minutes, memorandums, and folders for submitting system documentation.

The DEAR modernization would restructure the IAPS database so that the contract line item number and accounting classification reference number could be cross-referenced. Specifically, DEAR would allow for full or partial receipt and acceptance of goods and services by line item. It would also provide the capability to automatically match invoices to obligations and receiving reports by document and line item and provide for two-way matching (obligation and invoice) and three-way matching (obligation, receiving report, and receipt of invoice). Additionally, DEAR would expand the IAPS database to support a thirty-position invoice number data field.

IAPS would be modified to support GAFS fiscal year-end conversion by changing accounting records to prior-year status to maintain agreement with GAFS. The fiscal year-end conversion is scheduled immediately after the DEAR modernization achieves initial operational capability.

FY 2006 Integrated Accounts Payable System Workbook

DFAS did not implement sufficient controls to ensure that the modernization decision for IAPS was based on adequate documentation. Specifically, the workbook responses to CCA, DITSCAP, and FFMIA compliance questions were not adequately supported.

Clinger-Cohen Act. The IRB workbook indicated that IAPS was compliant with CCA. However, we could not sufficiently validate whether IAPS was compliant with CCA because of the lack of supporting documentation.

According to IRWG officials, they created a requirements table for reviewing IAPS compliance with CCA similar to the table depicted in DoD Instruction 5000.2, "Operation of the Defense Acquisition System," May 12, 2003. The table in the instruction identifies requirements to be used to help determine whether a system is CCA compliant. Of the ten requirements on the table, four were not applicable to IAPS. The IRWG explained that these were not applicable because IAPS pre-dates the CCA and no modification or event has mandated a CCA compliance review until the current DEAR modernization.

In addition, the IRWG referenced IAPS documents that support the remaining six requirements. These documents were also used to validate IAPS compliance with the CCA. These documents were:

- IRB workbook,
- Dashboard,
- Economic Viability worksheet,
- DEAR modernization release project schedule,
- Business Enterprise Architecture worksheet, and

-
- System Security Authorization Agreement (SSAA).

Three of the six documents referenced were either not available, not required to be included in the IAPS certification package, or did not contain updated information. Specifically, the Economic Viability worksheet and the DEAR modernization release project schedule were not provided to the audit team for review. Although the IRWG referenced the Economic Viability worksheet as supporting program documentation, the IRWG had already informed us that the economic viability analysis was not required in the certification package for modernizations and enhancements under \$1 million. In addition, the SSAA did not contain updated information to reflect accepted risks.

According to the CCA of 1996, the executive agency is responsible for designing and implementing a process for maximizing the value and assessing and managing the risks of the information technology acquisitions of the agency. Specifically, the process should provide for the:

- selection of information technology investments,
- management of such investments,
- evaluation of the results of such investments, and
- minimum criteria for considering undertaking a particular investment.

Although DFAS is working to refine the CCA compliance and validation process, IAPS compliance with CCA for FY 2006 is not sufficiently validated and remains unsupported.

DoD Information Technology Security Certification and Accreditation Process. The IRB workbook indicated that IAPS was compliant with DITSCAP. The response was unsupported because the SSAA that was provided as supporting documentation was not updated. The DFAS DAA signed the SSAA and granted IAPS an Authority-to-Operate on September 5, 2003. The DFAS DAA accepted the high risk that IAPS was under a complete re-design to support the agency's electronic data exchange efforts. They also acknowledged that the ability of IAPS to field software changes to meet the agency's goals for electronic data exchange in a timely manner may be questionable. Based on the signed SSAA, the DFAS DAA stated the DEAR modernization was on schedule, and would be fielded in April 2004. However, during our site visit in May 2006, the DEAR modernization had not been implemented. In addition, the SSAA was not updated to reflect the accepted residual risk despite the change in the original security posture accepted by the DFAS DAA.

DITSCAP requires recertification every 3 years, or whenever changes occur to the mission, software, hardware configuration, or operating environment that are significant and affect the original security posture accepted by the DAA. In addition, DoD 8510.1-M, "DITSCAP Application Manual" states that post accreditation activities will include ongoing maintenance of the SSAA, system operations, security operations, configuration management, and compliance validation. The DITSCAP Application Manual also states that site operations

staff and the Information Systems Security Officer are responsible for maintaining an acceptable level of residual risk. This is achieved by addressing security considerations when changes are made to either the information system baseline or the baseline of the computing environment.

The responses to the DITSCAP question were unsupported because an updated SSAA was not in place when the workbook was submitted to the ESG for approval.

Federal Financial Management Improvement Act. The IRB workbook indicated that IAPS was compliant with FFMIA. However, IAPS will not be fully compliant with FFMIA until the DEAR modernization is implemented in FY 2006.

The FFMIA requires each agency to implement and maintain financial systems that comply with Federal financial management system requirements, applicable Federal accounting standards, and the United States General Ledger at the transaction level. In addition, FFMIA requires audits to report whether the agency financial management systems comply with the requirements of the Act.

The FY 2005 DoD Performance Assessment Report, November 12, 2005, did not indicate DoD-wide FFMIA compliance. The report states,

Specifically, DoD acknowledged that many of its critical financial management and feeder systems did not comply substantially with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2005. In an attempt to remedy these longstanding financial management systems deficiencies, DoD is developing a DoD-Wide Business Enterprise Architecture. Until the architecture is fully developed and implemented, DoD will continue to be unable to fully comply with the statutory reporting requirements.

DFAS uses DFAS 7900.4G, "A Guide to Federal Requirements for Financial Management Systems," November 2004, to assess compliance with FFMIA. Known as the Blue Book, it serves as a guide for system managers to use in determining whether their systems are FFMIA compliant. The Blue Book is organized by major functional areas including Accounts Payable. The IAPS system manager completed a Blue Book self-assessment indicating that the FY 2006 DEAR modernization would allow IAPS to:

- support the full and partial receipt of services by line item,
- automatically match invoices to obligations and receiving reports by document and line item, and
- expand the database to support a 30-position invoice number.

The IAPS system manager answered in the workbook that IAPS is FFMIA compliant. However, the system manager acknowledged in his Blue Book

self-assessment that IAPS was not fully compliant with FFMIA. In addition, the IRWG did not seek or require documentation supporting the IAPS FFMIA compliance certification.

Therefore, system managers need to maintain supporting documentation that supports their responses to the IRB workbook questions. System managers also need to ensure that the supporting documentation is current and provides the best assurance that their responses are valid. This will ensure that responses to CCA, DITSCAP, and FFMIA compliance questions are accurate and fully supported.

Adequacy of Guidance and Review Procedures

The IRWG did not provide adequate guidance to the IAPS system manager on how to complete the IAPS IRB workbook. In addition, the IRWG did not provide adequate review procedures for the IRB workbook.

IRB Workbook Instructions. The IRB workbook instructions provided to the IAPS system manager did not adequately describe the steps that he should follow to complete the workbook. DFAS included instructions in the IRB workbook for IAPS as of August 29, 2005. The instructions have four steps for the system manager to follow. The four steps identified in the instructions are as follows:

- complete all worksheets in the workbook for your system;
- do not rename the workbook file;
- submit the completed workbook to your business line's portfolio manager for review; and
- submit these three architecture exhibits with your workbook: All View-1, Technical Standards View-1, and Operational View-5.

The instructions do not clearly state how the system managers should complete the workbook and do not identify criteria or documentation that the system managers should reference or maintain in order to validate their IRB workbook responses.

Instructions on the ePortal. In addition to the instructions included in the workbook, the IRWG posted additional instructions for completing the IRB workbooks to the ePortal. The ePortal instructions state that the IRWG would provide written guidance for project managers and system managers on how to complete the workbooks.

The ePortal instructions outlined similar steps to the ones included in the IRB workbook. However, these instructions, as written, do not adequately outline the necessary steps a system manager must follow to ensure that the IRB workbook is complete and that responses in the workbook are valid.

The IRWG needs to develop and provide detailed instructions to the system managers on how to complete the IRB workbooks. These instructions should clearly state each step that the system managers should follow when completing the IRB workbooks. The instructions should also identify the supporting documentation that system managers should use and maintain when determining the responses to the IRB workbook questions.

Workbook Review Procedures. The IRWG review procedures were inadequate to detect unsupported responses to IRB workbook questions. For example, the “DFAS Under \$1 million Review Procedures,” as of August 19, 2005, had the following steps.

- The CIO receives workbook and associated files.
- The CIO alerts all IRWG reviewers through ePortal.
- IRWG business line members review the workbook submission according to their respective topics for 2 days. Topics include the following:
 - General
 - Transition Plan
 - Architecture
 - Requirements and Justification
 - Economic Viability/Budget
 - Information Assurance
- If problems or a nonconcur are reported by the CIO or IRWG reviewers, the business line portfolio manager and system manager are notified within 1 day.
- If the workbook submission is accepted with comments, the issue is noted for later IRWG review, and the workbook is forwarded.
- If no problems are reported by reviewers, the CIO alerts all IRWG members and ESG.
- IRWG and ESG review the workbook for 1 day and alert CIO staff of a hold if a problem is identified.
- If an IRWG or ESG member has put a hold on the workbook submission, the portfolio manager, business line manager, and system manager resolve the issue within 1 day.
- If the workbook submission is accepted without a hold, the CIO issues the certification letter ending the review process.

On September 2, 2005, the DFAS CIO issued the, “Investment Technology Review Process,” memorandum. Appendix B of this memo contained the IRWG IRB Workbook Review Process. The appendix explained the IRWG process and provided a timeline for the review. It stated that in 3 business days, the IRWG does the following:

- reviews each workbook,
- resolves issues with the business line, and
- provides concurrence or nonconcurrence of the program modernization effort.

The workbook review procedures do not state how the IRWG reviewers should evaluate workbook responses. The procedures do not specify what supporting documentation to examine, or what specific criteria to apply in analyzing workbook responses.

The IRWG needs to develop and follow adequate standardized review procedures for the IRB workbooks. These procedures should clearly indicate the specific criteria and documentation that IRWG reviewers should use when determining the validity of the IRB workbook responses. This will ensure that IRB workbook responses accurately reflect compliance with laws such as CCA, DITSCAP, and FFMIA.

Conclusion

The ESG approved the IAPS modernization for \$759,000 based on unsupported information. Without adequate standard procedures and controls for modernizations under \$1 million, the ESG may continue to approve procurements that are not adequately supported and reviewed. Improving the process will ensure that the ESG has the most reliable system information to make well-informed decisions for business system modernizations under \$1 million in the future.

The IRWG acknowledged the need to improve their investment review process. Based on the issues and concerns expressed to them during the audit, the IRWG is working to refine their investment review process. Specifically, the IRWG stated that they are:

- working to refine the CCA compliance validation process,
- working to refine the FFMIA compliance and validation process, and
- developing FY 2007 guidance and instructions.

Management Comments on the Finding and Audit Response

Management Comments. The Director, Information and Technology responding for the Director, Defense Finance and Accounting Service partially agreed with the need for better documentation and did not agree with the conclusion that the IAPS modernization was based on unsupported information. The Director stated that the 2005 NDAA does not direct IRBs to require CCA or FFMIA compliance. In addition, the CCA comments in the report note items that the audit team did not review rather than focusing on the IRWG's examination and rationale. However, the Director indicated that actions are in progress to address the CCA and FFMIA concerns identified during the audit. Furthermore, the Director disagreed with the conclusion that the DEAR modernization was not supported because an updated SSAA was not in place. However, the Director indicated that the SSAA was updated with information about the DEAR modernization in September 2006.

Audit Response. We reviewed the DFAS Investment Review Process procedures and found that system managers were required to certify that their systems were aligned with applicable policies, laws, and regulations. Specifically, system managers were required to indicate if their system was compliant with the CCA, the DITSCAP, and the FFMIA. Regarding the Director's comments on the audit team's review of CCA compliance, IRWG officials stated that they created a requirements table for reviewing IAPS compliance with the CCA. We considered the IRWG examination and rationale in auditing the IRB process by examining the contents of the table. As indicated in this report, the IRWG referenced six documents used to validate IAPS compliance with the CCA. However, three of the six documents were either not available, not required in the certification package, or did not contain updated information.

Recommendations and Management Comments

We recommend that the Director, Defense Finance and Accounting Service:

1. Require that system managers maintain current supporting documentation for the under \$1 million Investment Review Board workbook responses for FY 2007 and future years.

Management Comments. The Director, Information and Technology responding for the Director, Defense Finance and Accounting Service concurred and stated that for FY 2007, DFAS requires that all modernizations, regardless of the dollar amount, have the same documentation and level of review. Additionally, DFAS established a repository through the DFAS ePortal for system managers to maintain documents for IRWG review.

2. Develop, and provide to the system managers, detailed instructions on how to complete the under \$1 million Investment Review Board workbooks for FY 2007 and future years.

Management Comments. The Director, Information and Technology responding for the Director, Defense Finance and Accounting Service concurred and stated that for

FY 2007, DFAS provided detailed instructions and procedures for the completion of workbooks. Additionally, DFAS provided mandatory training in the investment review process for system managers. Also, the IRWG provided system managers with points of contact and established a monthly forum for updates and reminders.

3. Develop and provide adequate standardized review process procedures for the under \$1 million Investment Review Board workbooks for FY 2007 and future years.

Management Comments. The Director, Information and Technology responding for the Director, Defense Finance and Accounting Service concurred and stated that for FY 2007, the IRWG has published standard review criteria, including instructions for each topic area of the workbooks, with specific criteria and supporting documentation necessary for a due diligence review. Additionally, DFAS has added subject matter experts to the IRWG to provide better topical coverage of reviews, including CCA, DITSCAP, and FFMIA.

Appendix A. Scope and Methodology

We performed the audit at DFAS Headquarters in Arlington, Virginia, and DFAS Denver, Colorado. We reviewed the DFAS Investment Review Process used to approve the obligation of funding for FY 2006 IAPS modernization efforts. We interviewed members of the IRWG as well as the IAPS system manager. We also obtained and reviewed DFAS Investment Review Process procedures and documentation. Specifically, we reviewed charters, designation letters, the FY 2006 IAPS modernization workbook and supplemental documentation.

We reviewed and compared the procedures and documentation to the following laws, policies, and DFAS guidance related to the Defense business system investment review process. Specifically, we reviewed:

- Public Law 108-375, “Ronald W. Reagan National Defense Authorization Act for FY 2005,” October 28, 2004;
- Public Law 104-208, “Federal Financial Management Improvement Act ,” September 30, 1996;
- Public Law 104-106, “Clinger Cohen Act,” February 10, 1996;
- DoD Instruction 5000.2, “Operation of the Defense Acquisition System,” May 12, 2003;
- DoD Instruction 5200.4, “DoD Information Technology Security Certification and Accreditation Process,” December 30, 1997;
- DoD Manual 8510.1-M, “DoD Information Technology Security Certification and Accreditation Process Application Manual,” July 31, 2000;
- Department of Defense, “Investment Review Process Overview and Concepts of Operations For Investment Review Boards,” May 17, 2005;
- Department of Defense, “Business Systems Investment Review Proposal Submission Guideline,” July 15, 2005;
- “DoD Information Technology Registry Merger Into the DoD Information Technology Portfolio Repository,” September 28, 2005; and
- DFAS Publication 7900.4G, “A Guide to Federal Requirements for Financial Management Systems,” November 2004.

We performed this audit from March 2006 through August 2006 in accordance with generally accepted government auditing standards. We did not review the management control program as it related to the investment review process because a management control program has not been established for the DFAS investment review process.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Approach to Business Transformation, specifically, DoD Financial Management and DoD Business Systems Modernization.

Prior Coverage. No prior coverage has been conducted on IAPS during the last 5 years.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Director, Acquisition Resources and Analysis
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation

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

Combatant Command

Commander, U.S. Joint Forces Command
Inspector General, U.S. Joint Forces Command

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Business Transformation Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (cont'd)

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Oversight and Government Reform

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
ARLINGTON
1851 SOUTH BELL STREET
ARLINGTON, VA 22240-5291

DEC 20 2006

DFAS-HT

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Integrated Accounts Payable System Compliance with the
Defense Business Transformation System Certification Criteria (Project No.
D2006-D000FB-0164.000)

This responds to your request for comments on the subject Draft Report. The Defense Finance and Accounting Service (DFAS) has reviewed the proposed report and submits the following comments regarding recommendations 1 through 3 and the conclusions on which they are based.

Recommendation 1: "Require that system managers maintain current supporting documentation for the under \$1 million Investment Review Board workbook responses for FY 2007 and future years."

Current Comments: Concur. For FY 2007, DFAS requires that all modernization efforts, regardless of dollar amounts, require the same documentation and level of review. The same workbook is used for review of both under \$1 million and over \$1 million investments. The DFAS System Management Directorate (SMD) has established a System Document Repository via the DFAS ePortal to assist managers in maintaining system documents and to facilitate DFAS Investment Review Working Group (IRWG) review.

Recommendation 2: "Develop, and provide to the system managers, detailed instructions on how to complete the under \$1 million Investment Review Board workbooks for FY 2007 and future years."

Current Comments: Concur. For FY 2007, DFAS requires that all modernization efforts, regardless of dollar amounts, require the same documentation and level of review. DFAS improved the FY 2007 review process by providing detailed instructions and procedures for completion of workbooks, in addition to updating our process documents. System Managers (SM) received mandatory training in the FY 2007 investment review process in August 2006. IRWG provides the SMs with assistance points of contact (POCs) and modernization process summary sheets. The IRWG also provides updates, reminders, and question-and-answer responses in the monthly System Managers' Forum teleconference.

Recommendation 3: "Develop and provide adequate standardized review process procedures for the under \$1 million Investment Review Board workbooks for FY 2007 and future years."

Current Comments: Concur. For FY 2007, the IRWG has published standard review criteria, including instructions for each topic area of the workbooks, with specific section-by-section review criteria and supporting documentation necessary for a due diligence review. In addition, DFAS has added Subject Matter Experts (SMEs) to the IRWG to provide better topical coverage for reviews, including Clinger-Cohen Act (CCA), DoD IT Security Certification and Accreditation Process (DITSCAP) [now replaced

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by DIACAP], Business Enterprise Architecture (BEA), Standard Financial Information Structure (SFIS), Privacy Act, and Federal Financial Management Improvement Act (FFMIA).

Conclusion: “The ESG approved the IAPS modernization for \$759,000 based on unsupported information.” This conclusion was based on results identified earlier in the report: “DFAS did not implement sufficient controls to ensure that the modernization decision for IAPS was based on adequate documentation. Specifically, the workbook responses to CCA, DITSCAP, and FFMIA compliance questions were not adequately supported.”

Current Comments: Non-concur with the conclusion; partial concur regarding the need for better documentation. The CCA comments in the report note items that the audit team did not review, rather than focusing on the IRWG’s examination and rationale. DFAS non-concurs with the DITSCAP conclusion of “unsupported because an updated SSAA was not in place” for reasons noted in the DITSCAP discussion below. DFAS concurs on the need for better examination of FFMIA supporting documents.

CCA and FFMIA: In regards to the CCA and FFMIA concerns, DFAS has the following actions in progress for both under and over \$1 million investments:

- DFAS CIO Oversight, the Requirements Management Directorate (RMD), and CIO Strategic Architecture are collaborating to improve and re-implement CCA and FFMIA processes. IAPS will be included within this effort.
Completion Date: End of 4th Quarter, FY 2007
- DFAS CIO Oversight and RMD are providing further assistance to SMs to enhance and better document systems compliance.
Completion Date: On-going
- DFAS CIO Oversight, including IRWG, are developing comprehensive CCA guidance for steady-state systems.
Completion Date: End of 3rd Quarter, FY 2007
- IRWG is implementing use of the ACART tool for documenting BEA compliance.
Completion Date: TBD based on finalization of ACART training materials being developed by the Business Transformation Agency (BTA).

The 10 U.S.C. 2222 (2005 NDAA), which established the Investment Review Boards (IRBs), does not direct IRBs to require CCA or FFMIA compliance as a condition of the modernization. In fact, the DoD Business Systems Investment Review Proposal Submission Guideline, dated 07/15/2005 states, “IRB business system submissions assert critical information for the IT investment as well as business case and architectural alignment to the BEA. This information allows decision-makers to make prudent evaluations relative to costs and benefits of the IT investment when compared to other IT competing requirements.” DFAS contends that informational type questions in an appendix worksheet do not constitute investment review criteria. Rather, these questions and responses provide information about the system to due diligence reviewers and both DFAS and IRB/DBSMC leadership.

DITSCAP: In regards to DITSCAP compliance, the auditors reviewed the SSSA supporting the September 5, 2003 Authority to Operate (ATO) which stated the Database Enhancement and Restructure (DEAR) modernization was on schedule to be fielded in April 2004. However, the DEAR modernization was not implemented at that time, nor during the time of the existing IAPS ATO. Therefore, no changes were necessary. Consequently, the IAPS was reaccredited on September 6, 2006 with updated information about the DEAR release in Section 3.4. of the SSAA. The expanded structure and added electronic transaction capability does not change the system architecture, data flow, security levels, user access, audit trails, or the confidentiality level of data. The IAPS does not anticipate any new deployments which would pose additional physical vulnerability and is in accordance with DITSCAP Phase 2. Since the system is in the testing phase, any security discrepancies are being resolved. Full deployment will not take place until all vulnerabilities in the release are mitigated. A final version of the SSAA for Phase 3 DITSCAP validation will be completed before the system goes into production.

The system modernization effort, its benefits to the agency, its link to agency strategic objectives, and importance to day-to-day system operations and customer satisfaction are the compelling factors for approving this modernization.

My POC for this request is Ms. Angela DeSenze, the DFAS IT Investments Manager, 703-607-0994 or e-mail at angela.desenze@dfas.mil.



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Inspector General Department of Defense