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Acronyms

AT&L	Acquisition Technology and Logistics
ATAAPS	Automated Time Attendance and Production System
BTA	Business Transformation Agency
CCA	Clinger-Cohen Act
CIO	Chief Information Officer
CONOPS	Concept of Operations
DAA	Designated Approving Authority
DBSMC	Defense Business System Management Committee
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
IRB CONOPS	Investment Review Board Concept of Operations
IRWG	Investment Review Working Group
L&P	Labor and Production
NDAA	National Defense Authorization Act
ODIG-AUD	Office of the Deputy Inspector General for Auditing
OIG	Office of Inspector General
OSD	Office of the Secretary of Defense
T&A	Time and Attendance
USD	Under Secretary of Defense



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

October 26, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR
ACQUISITION, TECHNOLOGY, AND LOGISTICS
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on the Automated Time Attendance and Production System's
Compliance with the Defense Business Transformation System
Certification Criteria (Report No. D-2008-006)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The management comments for Recommendation 1.a. were responsive. However, we request that the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics, by November 30, 2007, provide the published certification guidance and criteria for defining the tier-level designations, required documentation, and significance of documentation because they were published after we conducted our audit work. The Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics comments on Recommendation 1.b. were partially responsive. Therefore, we request that the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics provide additional comments on Recommendation 1.b. by November 30, 2007.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Patricia C. Remington at (703) 428-1054 (DSN 328-1054) or Ms. Carolyn J. Davis at (703) 428-0470 (DSN 328-0470). 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:

Patricia A. Marsh
For Paul J. Granetto, CPA
Assistant Inspector General and Director
Defense Financial Auditing Service

Department of Defense Office of Inspector General

October 26, 2007

Report No. D-2008-006

(Project No. D2006-D000FG-0203.000)

Automated Time Attendance and Production System's 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 approve the Defense business modernizations. Specifically, this report discusses the procedures used to approve the FY 2006 modernization efforts for the Automated Time Attendance and Production System (ATAAPS).

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 ATAAPS with the Defense Business Transformation System Certification Criteria. Additional reports will discuss other business systems compliance.

The "Ronald W. Reagan 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 (DBSMC). To comply with the NDAA, the DBSMC issued the Investment Review Board Concept of Operations (IRB CONOPS). The IRB CONOPS 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 IRB CONOPS.

ATAAPS is a DFAS automated system. The system offers the ability to review the status of an individual employee's time and attendance file for current, future, and prior pay periods.

Results. The Under Secretary of Defense for Acquisition, Technology, and Logistics and DFAS did not implement sufficient controls to ensure that modernization decisions were based on adequate documentation. As a result, the scope and total cost of the approved effort were not accurately presented nor adequately and sufficiently supported

* 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.

to show compliance with Federal laws and regulations. (See the Finding section of the report for detailed recommendations.)

Management Comments and Audit Response. The Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics nonconcurred with the recommendations. At the time we concluded our audit work, Office of the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics personnel were unable to provide evidence that they revised and published the certification guidance and criteria for defining tier-level designations, required documentation, and significance of documentation for the modernization packages. Therefore, we request that the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics provide the published certification guidance and criteria for defining the tier-level designations, required documentation, and significance of documentation for the modernization packages because they were published after we conducted our audit work.

Additionally, the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics actions in response to the revised criteria for the modernization packages took place after we conducted audit field work at DFAS Pensacola, Florida, and DFAS Headquarters, Arlington, Virginia. Office of the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics personnel were unable to provide evidence that they approved or rejected certification packages based on compliance with laws and regulations, such as the Federal Financial Management Improvement Act and the Clinger Cohen Act. Therefore, we request that the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics provide further comments explaining the specific criteria used to approve and reject modernization packages.

The Director, Defense Finance and Accounting Service concurred with the recommendation to improve the FY 2007 investment review process by updating process documents and providing detailed instructions and procedures for completing workbooks. For FY 2007, DFAS requires that all modernization efforts, regardless of dollar amount, have the same documentation and level of review. (See the Finding section of the report for the detailed recommendations.)

Management Actions. Although DFAS nonconcurred with our conclusion, we commend them for taking positive action to correct the problem associated with the 4th Quarter FY 05 Investment Review Board Guidance.

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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 Automated Time Attendance and Production System (ATAAPS) with the Defense Business Transformation System Certification Criteria.

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 \$1 million 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 Offices of the Secretary of Defense (OSD)-level approval authorities:

- Under Secretary of Defense for Acquisition, Technology, and Logistics (USD [AT&L]);
- Under Secretary of Defense (Comptroller);
- 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 Board 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 IRB members, Components, chief information officers

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

Business System investments under \$1 million are categorized as Tier 4 investments. However, the definition of Tier 4 is not described in the IRB CONOPS. The Business Transformation Agency (BTA)⁴ established this term in a manual titled, “Investment Certification and Annual Review Process User Guidance,” dated April 10, 2006. The BTA established the User Guidance after the ATAAPS modernization investment was certified. Therefore, this guidance is not part of the criteria used to evaluate the ATAAPS modernization and accreditation process.

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

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.

⁴ The BTA serves the interest of the entire Business Mission Area of the DoD and reports to the Under Secretary of Defense for Acquisition, Technology, and Logistics.

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).

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 a 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 of 1996. The FFMIA was enacted in 1996 to ensure consistent accounting by an agency from one fiscal year to the next. The FFMIA also requires 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.

Automated Time Attendance and Production System. For FY 2005, the ATAAPS system manager completed a workbook for a \$5.9 million modernization of the ATAAPS. The ATAAPS captures time and attendance (T&A) and labor and production (L&P) data and feeds it into the Defense Civilian Pay System and accounting systems on a daily basis. It provides the user a single, consolidated input method for reporting both T&A and L&P information. The system is configured to support core financial requirements for DFAS, as well to provide civilian T&A services for its customers located at DoD and non-DoD activities worldwide.

ATAAPS is modularly designed, and system functions are separated into individual modules that may be accessed by menu selections from the ATAAPS module select screen. The system provides for internal control of access modules through the use of security authorizations assigned to employee records. The system also offers the ability to review the status of an employee's T&A file for current, future, and prior pay periods.

ATAAPS produces an electronic time and attendance report and can generate individual and summary inquiries for various users.

Objective

Our overall audit objective was to determine whether ATAAPS was properly certified and accredited in accordance with the Defense Business Transformation Certification Criteria. Specifically, we determined if ATAAPS 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 was not developed for the Investment Review Process. See Appendix A for a discussion of the scope and methodology.

Review of Internal Controls

The USD (AT&L) and DFAS did not implement sufficient controls to ensure that the modernization decision for ATAAPS was based on adequate documentation. As a result, the DFAS Executive Steering Group approved the modernization for \$991,000 based on unsupported information. Without adequate standard procedures and controls for modernization investments, 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.

Investment Review Process for Business Systems Investments

The USD (AT&L) and DFAS did not implement sufficient controls for preparing, supporting, and pre-certifying modernization packages. The USD (AT&L) and DFAS did not have sufficient controls in place to ensure that information in modernization packages was validated, complied with Federal and DoD guidance, and was supported by adequate documentation. This occurred because the USD (AT&L) investment review process guidance was inadequate for DFAS to prepare, validate, review, and submit its modernization packages. This guidance was continuously being modified, which created uncertainty as to what was required to be submitted and reviewed. Specifically, the guidance did not clearly identify and define:

- tier-level designations,
- required documentation, and
- significance of documentation

As a result, the scope and total cost of the approved effort were not accurately presented, and compliance with Federal laws and regulations was not substantiated.

DFAS Investment Review Process

On September 2, 2005, DFAS established its 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 accountable for business system investments. The CIO acts as the Pre-Certification Authority for business system modernizations or enhancements under and over \$1 million. The CIO pre-certifies and submits the investment proposals to the IRB.

DFAS Executive Steering Group. The Executive Steering Group (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. It reviews and approves 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 Investment Review Working Group (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 is composed of representatives from each DFAS directorate or business line. The IRWG coordinates and resolves investment issues that arise during the Portfolio

Management Processes. This process is part of the DFAS governance process for information technology investment management and review. The IRWG also recommend approval of investment proposals to the ESG.

DFAS IRB Process for Investments over \$1 Million. The IRWG assists in overseeing the Investment Review Process. Prior to obligating funds for modernizations and enhancements over \$1 million, DFAS required that system managers complete an IRB workbook providing system information. System managers were required to complete the workbook by answering system-related questions and providing supplemental documents, such as architecture diagrams. The workbook and supplemental materials were reviewed by the IRWG. If the investment proposals were satisfactory, the IRWG recommended certification to the CIO. The CIO would then pre-certify and recommend approval and certification of the investment proposal to the IRB and the DBSMC.

Tier Designation and Funding Validation

DFAS certified ATAAPS using the certification process for a Tier 4 system modernization, when, in fact, ATAAPS is a Tier 3 system modernization. When DFAS submitted the ATAAPS certification package for review and certification to the DoD IRB, DFAS requested funding approval of \$991,000 for the modernization investment. However, this amount represented the investment for FY 2006 only and did not include the total funding of \$5.9 million as represented in the Economic Viability Review.

The DoD IRB determined that the modernization investment was under the \$1 million threshold, based on the information provided by DFAS. Consequently, the DoD IRB returned the modernization package to DFAS for review and certification by the ESG. Therefore, the ATAAPS modernization package was not certified by the designated DoD IRB or approved by the DBSMC.

FY 2006 Automated Time Attendance and Production System Workbook

The USD (AT&L) and DFAS did not implement sufficient controls to ensure that the modernization decision for ATAAPS was based on adequate documentation. In addition, USD (AT&L) and DFAS guidance did not emphasize the significance of appropriate supporting documentation to show CCA and FFMIA compliance. Although the ATAAPS workbook did not show supporting documentation for CCA and FFMIA compliance, the ATAAPS system manager did provide supporting documentation for DISTCAP compliance.

We reviewed the ATAAPS modernization package prepared by the ATAAPS system manager and submitted to DFAS for validation and approval. The modernization package included questions that dealt with ATAAPS compliance with the CCA and the FFMIA.

The IRB CONOPS guidance issued by USD (AT&L) was effective on June 2, 2005. This guidance did not require the system manager to provide supporting

documentation to validate the responses in the workbook. Without clear guidance, the system owners were not aware of the need to provide documentation to support CCA and FFMIA compliance.

Clinger-Cohen Act. The IRB workbook stated that ATAAPS was compliant with CCA. However, we could not sufficiently validate whether ATAAPS was compliant with CCA because of the lack of supporting documentation. For example, the program manager should have documentation to show the rationale and justification for the investment selection, details on how the investment was managed, and an evaluation of the results of investment. This documentation did not exist because the program managers did not receive guidance on what documentation was required and should be maintained to support each IRB workbook response. Although DFAS is working to refine the CCA compliance and validation process, ATAAPS compliance with CCA for FY 2006 was not sufficiently validated and remains unsupported.

The CCA establishes a management framework for translating mission needs and technology opportunities, based on approved mission needs and requirements, into well-managed acquisition programs, such as automated information systems. 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.

Federal Financial Management Improvement Act of 1996. In the IRB workbook, the system manager answered that ATAAPS was FFMIA compliant. However, we could not sufficiently validate whether ATAAPS was compliant with FFMIA because the system manager did not provide documentation to support the compliance with FFMIA. DFAS investment review guidance does not require system managers to maintain documents used to support the responses in the modernization submission package.

The FFMIA requires that agencies provide reliable, timely financial information; protect resources from loss, misappropriation, or destruction; and comply with Federal financial accounting standards. Additionally, 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. The FFMIA requires agencies to report whether their financial management systems comply with the requirements of the Act.

The ATAAPS system manager needed to maintain documentation that supported responses to the IRB workbook questions. The system manager also needed to ensure that the supporting documentation was current and provided the best assurance that responses were valid. Supporting documentation should be retained and maintained so they can be used to verify the responses in the

modernization submission package and compliance with Federal laws and regulations.

DoD Information Technology Security Certification and Accreditation Process. In addition to the CCA and FFMIA, we reviewed the IRB workbook to determine whether it contained supporting documentation to show compliance with DITSCAP.

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 System Security Authorization Agreement, 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 ATAAPS system manager was able to provide a signed and updated copy of the System Security Authorization Agreement to support the IRB response in the workbook. As a result, the DITSCAP assertion of compliance was adequately supported.

Conclusion

DFAS did not ensure that the ATAAPS modernization package was properly prepared, supported, and approved by the appropriate IRB approval authority. Because USD (AT&L) did not provide clear guidance on tier-level designations, the total cost and scope of the approved effort were not accurately presented and supported. Additionally, because the DBSMC and DFAS did not specify the required IRB workbook documentation, the ATAAPS modernization package was approved without supporting documentation.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics:

a. Revise and clarify the Defense Business Transformation System Certification Criteria and the Investment Review Process. Specifically, the criteria need to address:

- (1) tier-level designations,**
- (2) required documentation, and**

(3) significance of documentation.

Management Comments. The Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics nonconcurred. The Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics stated that he revised and published the certification guidance and criteria for defining tier-level designations, required documentation, and significance of documentation.

Audit Response. Although the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics nonconcurred with the recommendations, we consider the management comments responsive. However, we request that the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics provide the published certification guidance and criteria for defining the tier-level designations, required documentation, and significance of documentation because they were published after we conducted our audit work at DFAS Pensacola, Florida, and DFAS Headquarters, Arlington, Virginia.

b. Establish approval and rejection criteria for the modernization packages to include compliance with applicable laws and regulations.

Management Comments. The Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics nonconcurred with the recommendation, stating that procedures were in place to support approval and rejection criteria.

Audit Response. The Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics comments are partially responsive. When we concluded our audit work, Office of the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics personnel were unable to provide evidence that they approved or rejected modernization packages based on compliance with laws and regulations, such as FFMIA and the Clinger Cohen Act. We request that the Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments in response to the final report explaining what specific criteria were used to approve and reject modernization packages.

2. We recommend that the Director, Defense Finance and Accounting Service review the revised Defense Business Transformation System Certification Criteria and Investment Review Process and develop supplemental guidance as necessary to ensure compliance with Federal and DoD regulations.

Management Comments. The Director, Defense Finance and Accounting Service concurred, stating that DFAS has improved the FY 2007 investment review process by updating its process documents and providing detailed instructions and procedures for completing workbooks. Further, DFAS requires that all modernization efforts, regardless of dollar amount, have the same documentation and level of review. In addition, DFAS has added subject matter experts to the IRWG to ensure better reviews of modernization packages to comply with the Clinger-Cohen Act, DITSCAP, Business Enterprise Architecture, and Standard Financial Information Structure. Lastly, for FY 2007, the IRWG has published standard review criteria, including instructions for each topic area of the books and reporting documentation required for review.

Audit Response. We commend DFAS for taking positive action to correct the problem associated with the 4th Quarter FY05 Investment Review Board Guidance. No further comments are required.

Appendix A. Scope and Methodology

We conducted this performance audit from May 2006 through March 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We performed the audit at DFAS Headquarters in Arlington, Virginia, and DFAS Pensacola, Florida. We reviewed the DFAS Investment Review Process used to approve the obligation of funding for FY 2006 ATAAPS modernization efforts. We interviewed the ATAAPS system manager. We also obtained and reviewed DFAS Investment Review Process procedures and documentation. Specifically, we reviewed charters, designation letter, and the FY 2006 ATAAPS 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:

- interviewed personnel and discussed policies and procedures at DFAS Headquarters in Arlington, Virginia; DFAS Cleveland Program Management Office; and the Technical Service Organization in Pensacola, Florida;
- reviewed and analyzed documentation submitted by DFAS Pensacola to DFAS Headquarters and the Executive Steering Group; and
- reviewed and compared the procedures and documentation to the following laws and DFAS guidance related to the Investment Review Process. Specifically, we reviewed:
 - Public Law 108-375, “Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (NDAA),” 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 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;

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- “Investment Review Process Overview and Concepts of Operations For Investment Review Boards,” May 17, 2005;
 - “Business Systems Investment Review Proposal Submission Guideline,” July 17, 2005; and
 - “DoD Information Technology Registry Merger Into the DoD Information Technology Portfolio Registry,” September 28, 2005.

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 this 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 Business System Modernization and the DoD Approach to Business Transformation high-risk areas.

Prior Coverage

No prior coverage has been conducted on the Automated Time Attendance and Production System 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
Assistant Secretary of Defense (Networks and Information Integration/Administration
and Management)
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
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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 Business Transformation Agency
Director, Defense Finance and Accounting Service

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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

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

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

Office of the Under Secretary of Defense, Acquisition, Technology, and Logistics



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

MEMORANDUM FOR DIRECTOR, REPORT FOLLOWUP AND GAO LIAISON,
OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

FROM: Paul Brinkley, Deputy Under Secretary of Defense for Business Transformation

SUBJECT: Inspector General (IG) draft report, "Automated Time Attendance and
Production System Compliance with the Defense Business
Transformation System Certification", dated March 16, 2007 (Project
No. D2006-D000FG-0203.000).

The proposed DoD response to the subject draft report is attached. My
point of contact for this matter is Ms. Sheila Bahner, BTA, 703-602-4921.

Attachment:
As stated





ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-3000

Ms. Patricia C. Remington, CPA
Program Director
Defense Financial Auditing Service
Department of Defense Office of Inspector General
400 Army Navy Drive
Arlington, VA 22202-4704

Dear Ms. Remington:

This is the Department of Defense (DoD) response to the Inspector General (IG) draft report on the "Automated Time Attendance and Production System Compliance with the Defense Business Transformation System Certification", dated March 16, 2007 (Project No. D2006-D000FG-0203.000).

The draft report provides recommendations for Acquisition, Technology and Logistics (AT&L) and recommendations for Defense Finance and Accounting Service (DFAS). This DoD response specifically addresses the AT&L recommendations and DFAS will provide a separate response. After evaluating the two recommendations directed towards AT&L, DoD "Non-concurs" on both recommendations.

DoD is non-concurring with the recommendations because revised policy documents were released in August 2006 that address the deficiencies outlined in the report. Specifically, the Department completed the "DoD IT Business Systems Investment Review Process: Investment Certification and Annual Review Process User Guidance" (dated July 12, 2006 and released August 22, 2006) which replaces the "Business Systems Investment Review Proposal Submission Guideline" (dated July 17, 2005) analyzed during this audit. The Department also completed the "DoD IT Business Systems Investment Review Process: Investment Review Board Concept of Operations" (dated July 12, 2006 and released August 29, 2006) which replaces the "Investment Review Process Overview and Concepts of Operations for Investment Review Boards" (dated May 17, 2005) analyzed during this audit. We have included copies of the updated policy documents along with DoD's response to the specific recommendations for your reference and review.

The Department appreciates the assessment performed by the DoD IG, and we will continue to evaluate our system certification criteria and investment review process to identify areas for continued improvement.


Paul A. Brinkley

Deputy Under Secretary of Defense
(Business Transformation)



DOD IG RECOMMENDATION 1:

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics revise and clarify the Defense Business Transformation System Certification Criteria and the Investment Review Process. Specifically, the criteria needs to address:

1. tier-level designations
2. required documentation, and
3. significance of document

DOD RESPONSE: Non-concur.

1a. Tier-level designations: Non-concur

The current IRB guidance document (DoD IT Business Systems Investment Review Process: Investment Certification and Annual Review Process User Guidance, (dated July 12, 2006 and released August 22, 2006) defines the tier designations for business system investment certifications and annual reviews (pages 3-4):

Investment Tiers have been designated as follows:

- ***Tier 1*** Includes all Major Automated Information System (MAIS) programs (ACAT 1A, ACAT 1AM, or ACAT 1D)
- ***Tier 2*** Includes all non-MAIS program investments \$10 million or above
- ***Tier 3*** Includes all non-MAIS program investments greater than \$1 million and less than \$10 million
- ***Tier 4*** Includes all non-MAIS program investments less than or equal to \$1 million

The \$1 million threshold, and the determination of Tier, is based on the total cost of investment funds for the modernization from concept refinement phase, or pre-initiation phase, to deployment, excluding operations and support, i.e., sustainment phase. Depending on how the modernization is structured, it may be a one-year effort or a multi-year effort and may extend beyond the Future Year Defense Plan (FYDP). A certification approval will generally apply to that portion or phase of the modernization for which procurement and funding has been granted. Components seeking Certification for system modernizations using FY06 funds must demonstrate system compliance with DoD BEA Version 3.0. For Certification for modernizations using FY07 funds, compliance with DoD BEA Version 3.1 will be required.

1b. Required documentation: Non-concur

The current IRB guidance document (DoD IT Business Systems Investment Review Process: Investment Certification and Annual Review Process User Guidance, (dated July 12, 2006 and released August 22, 2006) defines the documents required for IRB certification (pages 9-12). Below is an excerpt from the Guidance.

... the standard certification package prepared by the Component, which the Pre-Certification Authority (PCA) uploads to the IRB Portal when submitting a system for IRB Certification, consists of three to four documents:

- *Component Pre-Certification Memo*
- *Certification Dashboard (Defense Information Technology Portfolio Repository (DITPR) Report)*
- *System Regulatory Compliance Report (DITPR Report)*
- *Economic Viability (EV) analysis (if not using DITPR EV tool)*

Of these, both the System Regulatory Compliance Report and Certification Dashboard are standard DITPR Reports which may be simply extracted from DITPR and uploaded to the IRB Portal.

In addition to listing each required document, the Guidance also provides a detailed description of each document, including the specific information that must be included in each.

1c. Significance of document: Non-concur

The current IRB guidance document (DoD IT Business Systems Investment Review Process: Investment Certification and Annual Review Process User Guidance, (dated July 12, 2006 and released August 22, 2006) defines the purpose and significance of the documents required for certification (pages 9-12). The following excerpt from the Guidance states that certification requests will not be considered unless the modernization package is complete.

The PCA uploads this letter (PCA Memo) on the IRB Portal along with the Certification Dashboard, an EV analysis and other requested documentation. System investment certification requests will not be considered by any IRB unless the certification package is complete. (page 11)

DOD IG RECOMMENDATION 2:

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics establish approval and rejection criteria for the modernization packages to include compliance with applicable laws and regulations.

DOD RESPONSE: Non-concur

All system modernization packages submitted to a DoD Investment Review Board and subsequently to the DBSMC for certification are thoroughly evaluated against a defined list of criteria, including inclusion in the Enterprise Transition Plan, compliance with the Business Enterprise Architecture (BEA), as well as other system specific conditions, such as Standard Financial Information Structure (SFIS). Any system certification presented to the IRB/DBSMC that is deemed non-compliant with these requirements would have a condition placed on that certification with action items and timelines for correction or risk having program funding denied.

Additionally, the certification packages are reviewed for completeness and accuracy with regards to information on tier designation and requested modernization dollar amount. An analysis of the system's cost, schedule and performance is also performed. Cost, schedule and performance are assessed as "green", "yellow", or "red" based on specified thresholds defined in policy, and benefit is assessed through non-financial and financial metrics substantiated with an economic viability analysis.

It is important to stress that IRB/DBSMC decisions are not based on any one item but a combination of factors, some of which are measurable and some less tangible.

Per DoD's tiered accountability structure, Components maintain supporting documentation demonstrating compliance with applicable laws and regulations, such as Clinger-Cohen Act, DoD Information Technology Security Certification and Accreditation Process, and Federal Financial Management Improvement Act of 1996.

Defense Finance and Accounting Service Comments



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MAY 25 2007

DFAS-HT

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Automated Time Attendance and Production System (ATAAPS)
Compliance with the Defense Business Transformation System Certification Criteria
(Project No. D2006-D000FG-0203.000)

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 recommendation 2 and the conclusions on which they are based.

Recommendation (DFAS): "Recommend that the Director, Defense Finance and Accounting Service review the revised Defense Business Transformation System Certification Criteria and Investment Review Process and develop supplemental guidance as necessary to ensure compliance with Federal and DoD regulations."

Current Comments: Concur. DFAS has improved the FY 2007 investment 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 on the FY 2007 investment review process in August 2006. The Investment Review Working Group (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.

For FY 2007, DFAS requires that all modernization efforts, regardless of dollar amounts, require the same documentation and level of 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 by DIACAP], Business Enterprise Architecture (BEA), Standard Financial Information Structure (SFIS), Privacy Act, and Federal Financial Management Improvement Act (FFMIA). Finally, 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.

Conclusion: "DFAS did not ensure that the ATAAPS modernization package was properly prepared, supported, and approved by the appropriate IRB approval authority. Because USD (AT&L) did not provide clear guidance on tier-level designations, the total cost and scope of the approved effort were not accurately presented and supported. Additionally, because the DBSMC and DFAS did not specify the required IRB workbook documentation, the ATAAPS modernization package was approved without supporting documentation."

Current Comments: DFAS non-concurs with the conclusion. The auditors have confused the FYDP system budget projections with the modernization request being approved. This confusion was an early

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problem with 4Q FY05 IRB guidance, which affected the ATAAPS EV submission; the guidance has since been corrected. Only the FY06 \$991K for ATAAPS had defined requirements that are a prerequisite for a modernization approval. Later years in the FYDP budget are placeholders for expected future requirements. ATAAPS was properly and correctly approved as a Tier 4 modernization effort and the scope and FY06 total cost of the approved effort were accurately presented.

DFAS concurs on the need for better examination of CCA and FFMIA supporting documents.

Tier-Level Designation: In regards to the tier-level designation and approval from the appropriate IRB approval authority, DFAS submitted the ATAAPS certification package for only the FY06 portion of the ATAAPS investment since the investment amounts in FY 2007 – FY 2011 did not have defined requirements and would be separate from the modernization efforts being implemented in FY06. The Economic Viability (EV) review was based on the entire ATAAPS budget through FY2011. DFAS has the following processes in place for both under and over \$1 million investments:

- The IRWG has improved the FY 2007 process by requiring that SMs only submit certification packages for modernization efforts that have defined requirements approved by the DFAS Business Requirements & Integration (BR&I) Directorate.
Completion Date: August 2006
- DFAS CIO Oversight, the Program Analysis & Evaluation (PA&E) office, and the IRWG are providing further assistance to SMs to enhance and better document economic viability and all supporting documents.
Completion Date: On-going
- The DFAS IRWG and PA&E are conducting more thorough reviews of the EV submissions and verifying that the EV documents match all certification submission documents where applicable.
Completion Date: On-going

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 and BR&I are collaborating to improve and re-implement FFMIA processes. ATAAPS will be included within this effort.
Completion Date: End of 4th Quarter, FY 2007
- DFAS CIO Oversight, BR&I, and the IRWG are providing further assistance to SMs to enhance and better document systems compliance.
Completion Date: On-going
- DFAS CIO Oversight, including IRWG, is currently reviewing system documentation for CCA compliance.
Completion Date: End of 4th Quarter, FY 2007

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.

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 Mr. Jeffrey Hayden, Portfolio Oversight Team, 216-204-7021 or e-mail at jeffrey.hayden@dfas.mil.

A handwritten signature in black ink, appearing to read "Audrey Y. Davis", is positioned above the printed name and title.

Audrey Y. Davis
Director, Information Technology

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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Inspector General Department of Defense

