Audit Report

AUTOMATED TRANSPORTATION PAYMENTS

Report No. D-2001-148 June 22, 2001

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Acronyms

DFAS	Defense Finance and Accounting Service
DISA	Defense Information System Agency
DITSCAP	Defense Information Technology Security Certification and Accreditation Process (DoD Instruction 5200.40)
FFMIA	Federal Financial Management Improvement Act of 1996
GAO	General Accounting Office
LOA	Line of Accounting
MRM	Management Reform Memorandum
OMB	Office of Management and Budget
ST&E	Security Test & Evaluation

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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June 22, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF DEFENSE (COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
COMMANDER IN CHIEF, U.S. TRANSPORTATION COMMAND
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Automated Transportation Payments (Report No. D-2001-148)

We are providing this report for review and comment. This report discusses DoD Implementation of Management Reform Memorandum No. 15, "Reengineering Defense Transportation Documentation and Financial Processes." We considered management comments on a draft of this report when preparing the final report.

The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) comments were partially responsive. We request additional comments on Recommendations A. and B.2.a. The Assistant Deputy Under Secretary of Defense (Transportation Policy) comments were partially responsive. The U.S. Transportation Command did not respond to the draft report; however, we considered comments from the Assistant Deputy Under Secretary of Defense (Transportation Policy) when preparing the final report. We consolidated the intent of draft report Recommendations B.1.b. and B.1.c. into Recommendation B.1.a. and renumbered the remaining draft report Recommendation to Recommendation B.1.b. We request additional comments on Recommendations B.1.a., B.4.a., B.4.b., B.4.d., and B.4.e. The Deputy Chief Information Officer, Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) comments and the Department of the Navy comments were responsive. Additional comments are not required. The Department of the Air Force comments were partially responsive. We request additional comments on Recommendation B.5.a. The Department of the Army did not respond to the draft report. We request comments on Recommendation B.5. DoD Directive 7650.3 requires that all recommendations or unresolved issues be resolved promptly. Therefore, we request that management provide comments by August 17, 2001.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird at (703) 604-9159 (DSN 664-9159) (rbird@dodig.osd.mil) or Ms. Addie M. Beima at (703) 604-8912 (DSN 664-8912) (abeima@dodig.osd.mil). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. D-2001-148 **June 22, 2001**
(Project No. D1999FI-0080.000)

Automated Transportation Payments

Executive Summary

Introduction. The 1997 Quadrennial Defense Review directed DoD to revolutionize its business practices. As a result, the Under Secretary of Defense (Comptroller) issued Management Reform Memorandum No. 15, "Reengineering Defense Transportation Documentation and Financial Processes-Prototype Implementation." The reform memorandum required DoD to reengineer and streamline untimely, paper-based, and labor-intensive commercial transportation documentation, billing, collection, and payment processes. To meet the reengineering goals, DoD announced on March 31, 1999, a transition to the U.S. Bank PowerTrack® service for payment of freight transportation charges. PowerTrack®, an online freight payment and transaction tracking system, is the cornerstone of the DoD effort to reengineer transportation payment and accounting processes. Before the transition to PowerTrack®, DoD annually processed approximately 1.25 million transportation freight payments totaling approximately $1 billion.

Objectives. The audit objective was to determine whether controls over commercial freight transportation payments processed through PowerTrack® are effective. Specifically, the audit determined whether the lines of accounting and management information captured in PowerTrack® and the summarized data provided to the Defense Finance and Accounting Service are sufficient for payment and accounting purposes. We also determined the adequacy of controls over certification of PowerTrack® invoices for payment.

Results. The DoD transportation community's automated transportation process is already a major improvement from the previous manual process, but additional measures are warranted to effectively reengineer transportation freight operations.

Accounting procedures used to process commercial transportation freight payments through PowerTrack® needed reengineering. DoD did not optimally streamline its internal procedures to attain the objectives of Management Reform Memorandum No. 15 or to take advantage of the automated efficiencies offered by the PowerTrack® service. Instead, DoD was adapting streamlined automated capabilities to perpetuate less efficient business practices. DoD was unnecessarily incurring processing costs and late payment charges, and creating problem disbursements as it attempted to annually distribute $1 billion of transportation costs to thousands of lines of accounting. If DoD revises current accounting procedures to use centrally managed open allotments to fund transportation freight payments, it would better achieve its reform objectives (finding A).

Controls over security and management of the automated transportation payment process were not adequate to safeguard sensitive information or produce reliable data. DoD risks exposing data to unauthorized parties and noncompliance with public laws and regulations, operating in a business environment with inadequate management controls, and allowing Transportation Officers to assume responsibilities and associated liabilities more appropriately belonging to the financial community (finding B).

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) establish and fund Component-level open allotments for transportation freight, retain Certifying Officer responsibilities at the Defense Finance and Accounting Service, and revise the DoD Financial Management Regulation. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics appoint an executive agent for PowerTrack® operations. We recommend that the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) clarify guidance in regard to system security and Designated Approving Authority responsibilities associated with commercially owned electronic commerce applications. We also recommend that standard contract language be developed to address system security in commercially owned electronic commerce applications and that the security connection and controls associated with PowerTrack® be validated. We recommend that the U.S. Transportation Command, establish controls over PowerTrack® operations at each transportation office, implement Public Key Infrastructure procedures and update the Defense Transportation Regulations. We recommend that each Military Component Chief Information Officer incorporate PowerTrack® into base level System Security Authorization Agreements and operate all mobile code in compliance with DoD policy.

Management Comments. The Department of the Army did not respond to a draft of this report issued February 7, 2001. However, we received comments from the Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller); the Assistant Deputy Under Secretary of Defense (Transportation Policy); the Deputy Chief Information Officer, Assistant Secretary of Defense (Command, Control, Communications, and Intelligence); the Department of the Navy; and the Department of the Air Force. The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) nonconcurred with the recommendation on simplified accounting, stating that the use of centrally managed open allotments for fund management is problematic and prone to misuse. The Assistant Deputy Under Secretary of Defense (Transportation Policy) coordinated her response with the U.S. Transportation Command and generally nonconcurred with the recommendations on security, stating that PowerTrack® is a commercial application and because DoD has no software rights to this application, DoD system security requirements do not apply. In addition, management agreed in principle with those recommendations addressed to the U.S. Transportation Command, but believed that the recommendations should be addressed to the Military Components and Defense agencies. The Deputy Chief Information Officer, Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) generally concurred with the recommendations, stating that guidance was available that addressed requirements for the electronic commerce applications and that requirements for electronic commerce applications would be included in a new guidance series being issued. The Department of the Navy concurred with recommendations, stating that PowerTrack® will be incorporated into base level System Security Assessment Agreements and mobile code will be used in accordance with DoD policy. The Department of the Air Force concurred with the recommendation, stating that it will instruct all parties to comply with DoD mobile code policy. See the Management Comments section for the complete text of management comments.

Audit Response. We agree that implementation of PowerTrack® has greatly improved DoD transportation management. Constructively addressing the issues identified by the audit would add to that success. Specifically, our recommendations pertaining to centralized open allotments, strengthened controls, and increased information assurance would significantly assist DoD in achieving its long-term management improvement goals by reducing cost and operational risk in its freight transportation program. We request that the Under Secretary of Defense (Comptroller); Under Secretary of Defense for Acquisition, Technology, and Logistics; the Department of the Army; and the Department of the Air Force provide additional comments to the final report by August 17, 2001.

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Background

The DoD transportation mission involves many transportation communities and assets, services, and systems owned by, contracted for, or controlled by DoD. The entire infrastructure supports the transportation needs of DoD in peace and in wartime. The U.S. Transportation Command serves as the manager of the transportation community and is supported by three Component commands: the Military Traffic Management Command; the Military Sealift Command; and the Air Mobility Command.

DoD relies heavily on its commercial transport partners to support its mission. Approximately 88 percent of all DoD surface shipments are made by commercial carriers. According to the U.S. Transportation Command, DoD processed approximately $1 billion worth of commercial freight shipments in FY 1999. Table 1 identifies FY 1999 DoD commercial freight costs by mode of transportation.

Table 1. FY 1999 DoD Commercial Transportation Freight Costs

Modes of Transportation	Amount (in Millions)	
Surface		$ 693.4
Truck/Barge	$564.5	
Fuel pipelines	68.9	
Rail	60.0	
Sealift		193.7
Airlift		61.9
Express Shipments		75.0
Total		**$1,024.0**

According to the transportation community, transportation freight costs are expected to decrease from approximately $1 billion to $883 million during FY 2001.

Criteria Addressing PowerTrack® Functionality. No formal criteria specifically addresses the security and management control issues associated with electronic commerce applications used but not owned by the Government, such as PowerTrack®. The use of the PowerTrack® service to make transportation freight payments is a new way of doing business for DoD, one that will become more common as DoD moves toward contracting for services based on commercial models. As DoD employs commercial applications, it must establish and implement adequate business rules and safeguards. DoD does not own or maintain the PowerTrack® service. Nevertheless, the PowerTrack® service processes, transmits, stores, and displays DoD information and is an integral part of the transportation freight payment process. Based on PowerTrack® functionality, we consider it to be a DoD system and subject to substantially the same statutory and regulatory guidelines as any other DoD information system.

Management Reform Memorandum No. 15. The Secretary of Defense 1997 "Quadrennial Defense Review" directed DoD to revolutionize its business practices. As a result, the Under Secretary of Defense (Comptroller) issued

Management Reform Memorandum (MRM) No. 15 on July 7, 1997. The objective of MRM No. 15 was to reengineer and streamline DoD commercial transportation documentation, billing, collection, and payment processes. The specific reengineering goals included the following:

- reducing infrastructure costs,
- eliminating DoD-unique documentation and processes,
- reducing data requirements,
- improving data accuracy,
- developing a single documentation and billing process for all modes of transportation,
- employing best commercial practices,
- maintaining readiness capability, and
- increasing the use of electronic commerce.

In an effort to meet the MRM No. 15 objectives, DoD announced on March 31, 1999, the conversion to U.S. Bank's PowerTrack® service for the payment of commercial transportation freight charges. The PowerTrack® service provides DoD with a means to completely reengineer transportation documentation, accounting, and payment processes.

U.S. Bank PowerTrack® Service. The PowerTrack® service is a commercial on-line freight payment and transaction tracking system developed by U.S. Bank. U.S. Bancorp is the holding company for PowerTrack® and owns the registered PowerTrack® trademark. The PowerTrack® service provides carriers and DoD shippers (Transportation Officers) with on-line access to shipment data; matches freight bills of lading and corresponding invoices; processes payments to carriers; and provides relatively real-time analytical reporting tools. The PowerTrack® service was intended to electronically interface with DoD accounting systems. In addition, PowerTrack® stores DoD transportation data and reduces the need to maintain DoD-unique documentation.

Automated Transportation Payments. Although used exclusively for transportation freight shipments, the automated transportation payments processed through the PowerTrack® service are similar to credit card transactions. Commercial carriers enter an agreement[1] with U.S. Bank. Each DoD transportation office has an account with U.S. Bank and will process its transportation freight payments through PowerTrack®. Each month, PowerTrack® generates an invoice for each DoD transportation office and summarizes the shipments by DoD funding account or line of accounting (LOA). See Appendix B for a flowchart of the DoD automated transportation payment process.

[1]U.S. Bank pays the carrier for delivery of freight shipments and assesses a processing fee of between 1 and 2 percent of the transportation cost.

DoD began processing payments through PowerTrack® as a prototype in April 1998 for surface transportation and later began adding transportation modes. Thus, the initial focus of this audit was centered on surface, or specifically, truck carriers. As of August 25, 2000, 360 (68 percent) of 532 DoD shipping sites and 282 commercial carriers were using PowerTrack®. Subsequent to the completion of audit fieldwork, the Assistant Deputy Under Secretary of Defense (Transportation Policy) reported that 158 additional DoD shipping sites and 67 commercial carriers were using PowerTrack®. The additional sites were not verified by audit.

Automatic Carrier Payment Approval. PowerTrack® has an automatic carrier payment approval tool (AutoApproval). The AutoApproval tool approves each shipment that meets predefined parameters for carrier payments. Shipments meeting these parameters will be automatically approved for payment and will not require the transportation office to initiate on-line manual approval for individual transactions. The goal is to have 95 percent of all carrier invoices approved and paid through AutoApproval within 3 days of receipt.

Objectives

The audit objective was to determine whether controls over the commercial freight transportation payments processed through PowerTrack® are effective. Specifically, the audit determined whether the LOAs and management information captured in PowerTrack® and the summarized data provided to the Defense Finance and Accounting Service (DFAS) were sufficient for payment and accounting purposes. We also determined the adequacy of controls over the certification of PowerTrack® invoices. See Appendix A for a discussion of the scope, methodology, management controls, and prior coverage of the audit objectives.

A. Accounting for Automated Transportation Payments

Accounting procedures used to process automated transportation freight payments need further reengineering to achieve optimal benefits from the PowerTrack® initiative. DoD did not sufficiently streamline its internal procedures to attain the objectives of MRM No. 15 or to take advantage of the automated efficiencies offered by the PowerTrack® service. Instead, DoD was adapting streamlined automated capabilities to perpetuate less efficient business practices. As a result, DoD was unnecessarily incurring processing costs and late payment charges and creating unmatched disbursements as it attempted to annually manage $1 billion of transportation costs in over 13,000 lines of accounting (LOA).

Reengineering Effort

The DoD transportation community is undertaking significant measures to reengineer transportation freight operations. We support their efforts as they strive to meet this challenge. Transportation freight payments have long been an area of concern within DoD. Before the Under Secretary of Defense (Comptroller) issued MRM No. 15, transportation freight practices were outdated, cumbersome, costly, and incapable of producing reliable management information. We believe that the current reengineering effort is proceeding in the right direction. From an operations perspective, it has produced significant results, reducing the time required to pay carrier invoices from an average of 60 days to 3 days, and increasing visibility of transactions at all levels. However, DoD needs to adopt commercial internal management and accounting practices to fully achieve its goal and realize the benefits of revolutionizing transportation freight operations.

Accounting Procedures

Although a step in the right direction, the reengineering efforts of DoD did not do enough to keep transportation funds management and accounting procedures from being paper-burdened and labor-intensive. Current legislation and Office of Management and Budget (OMB) guidance supports simplified funds control. However, DoD continued to use cumbersome and costly accounting and management practices that generated thousands of LOA to track its transportation freight costs. DoD was unable to effectively capture consistent and reliable management information through its LOA. Maintaining accurate and valid LOA remains a challenge for DoD.

Fund Control. Section 1514, title 31, United States Code, "Administrative Division of Apportionments," stipulates that agencies should have simplified systems for administratively dividing appropriations at the highest possible level. In addition, OMB Circular No. A-34, "Budget Justification," Section 21.3, "Fund Control," recommends that responsibility for budget control be placed at the highest organizational level that is consistent with effective and efficient management and control. Instead, Military Departments and Defense agencies allotted transportation freight funding to the lowest organizational level. These procedures were

counterproductive. To achieve optimum efficiency and effectiveness, DoD should restrict the administrative division of transportation funds to the highest possible level.

Use of Lines of Accounting. The Department's use of LOAs was predicated on its administrative division of funds, user needs, and reporting requirements. For example, management created thousands of unique LOAs to track the division of funds and provide detailed management data such as the mode of transportation. New LOAs were created daily when bill of lading numbers were included or transportation costs were tracked to a specific project, sub-project, or job order number. The transportation and accounting communities were unable to determine the precise number of LOAs but estimated that over 13,000 were used to process approximately $1 billion in transportation freight costs each year.

Cost of Current Accounting Practices. Benefits derived from existing accounting practices did not warrant the cost incurred to verify the accuracy and validity of the thousands of unnecessarily detailed LOAs being processed. Transportation of Things[2] object class represents approximately 1 percent of the DoD-wide budget. Yet in FY 1999, we estimated that DoD activities paid approximately $18.1 million to process approximately 1.25 million transportation freight payments, or $14.14 per payment. In addition, DoD incurred late payment charges while attempting to fund and validate the LOAs and to reconcile the payments. From February 1999 through May 2000, DoD used 8,468 unique LOAs to process 1.3 million shipments costing $149 million through PowerTrack®. Ninety percent of the transactions processed used less than 1 percent (69 of 8,468) of the LOAs. DFAS was only able to validate 2,270 LOAs, or approximately 27 percent. The remaining 73 percent of the LOAs were inadequate to effect payment and required reconciliation. To ensure accuracy and reliability, the LOAs need to be simplified. We were unable to identify the value added by maintaining inaccurate and invalid LOAs to manage the Department's transportation funds. See Appendix C for examples of DoD use of transportation LOAs.

Streamlining Effort

The DoD did not optimally streamline transportation freight management and accounting procedures to attain the objectives of MRM No. 15 or to take advantage of the automated efficiencies that the PowerTrack® service offered. DoD did not effectively reduce the number of LOAs, which resulted in the need to use alternate LOAs and develop and maintain up-front LOA conversion tables to meet payment and accounting requirements. The reengineered procedures accommodated and perpetuated inefficient accounting procedures.

Request to Reduce the Number of LOAs. To facilitate the flow of accurate accounting data, the Deputy Secretary of Defense directed the Services and the Defense Logistics Agency to reduce the number of transportation LOAs used and to report the status of their efforts by June 30, 2000. As previously discussed, the precise number of LOAs being used for processing transportation freight transactions was unknown. The response to the Deputy Secretary of Defense request was mixed.

[2] Object Classes are categories in a classification system that represents obligations incurred by the Federal Government. The "Transportation of Things" object class are those obligations incurred from goods and services associated with the transporting and care of things, including animals.

Army Response. Although the Army response indicated that it reduced the number of element of resource codes used, it did not actually reduce the number of LOAs. The element of resource code identifies the mode of transportation in the LOA. Because, the Army frequently includes the bill of lading number in its LOA, a unique LOA is created with each bill of lading processed. The Army did not identify how many LOAs it previously used or if any LOAs were reduced by its efforts.

Navy Response. The Navy responded that it had already reduced the number of LOAs as much as possible. The Navy uses 16 LOAs for its centrally managed transportation, which represents 72 percent of its transportation cost. It uses an additional 674 LOAs for its remaining 28 percent of transportation costs that were supported by decentralized funds. The Navy continued to use Transportation Account Codes to provide detailed information about its shipments.

Air Force Response. The Air Force reduced its transportation element of expense or investment code, which identifies the mode of transportation used. The Air Force was not able to specify how many LOAs it previously used but estimated that it reduced the number of LOAs to between 2,000 and 3,000 for transportation freight shipments.

Defense Logistics Agency Response. Prior to the tasking by the Deputy Secretary of Defense, the Defense Logistics Agency, Defense Distribution Center, had reduced its transportation freight LOAs from 150 to 29.

The Under Secretary of Defense (Comptroller) officials recognized that sufficient progress had not been made by the Components and believed that additional time was needed to allow implementation of the process change. The Under Secretary of Defense (Comptroller) needs to ensure that the requirement to reduce the number of transportation LOAs is met.

PowerTrack® Efficiencies. The DoD reengineering effort did not take full advantage of the automated efficiencies achievable with the PowerTrack® service. Processing responsibilities were shifted from DFAS to the Transportation Officer, Funds Manager, and the PowerTrack® service. PowerTrack® automates carrier payments, aggregates them by LOA, and electronically bills DoD by aggregated LOA. DFAS then reimburses U.S. Bank. DFAS projects that it would reduce the number of payments processed from 1.25 million to 108,000 annually. Based on DFAS FY 2001 billing rates, the Components would decrease its processing costs for transportation freight invoices by approximately $34 million that is attributable to aggregating the LOA for payment. See Table 2 below.

Table 2. Comparison of Invoice Processing Costs Incurred

Transaction	Projected FY 2001 Payments	Billing Rate per Payment*	Processing Costs Incurred
Individual bills (GBLs)	1,250,000	$28.78	$35,975,000
Aggregated bills through PowerTrack® (CBLs)	108,000	$17.88	1,931,040
Projected Annual Cost Reduction			**$34,043,960**

* The rate represents the amount DFAS will bill its customers to process the invoice. The DFAS billing rate includes its costs to certify the invoice and reconcile problem disbursements in addition to invoice payment.

The cost reduction estimate is misleading because what DoD has effectively done is shift a major portion of the DFAS processing responsibilities and processing cost to other DoD offices that must continue to reconcile and account for the 1.25 million individual transactions processed. In PowerTrack, the Transportation Officer takes on additional payment responsibilities, such as, approve carrier invoice for payment, reconcile the individual shipments to a monthly U.S. Bank invoice, and certify the invoice for payment. These functions were all previously performed by DFAS and may require a Transportation Officer (that is, Certifying Officer) to interface with individual Funds Managers and Service representatives because access to financial data is needed. Therefore, the projected cost reduction associated with processing the PowerTrack® aggregate billings may only be realized at the DFAS payment level. The processing costs will continue, if not escalate, at the individual transaction level because with the current inefficient accounting procedures, several DoD offices are needed to support the automated transportation payment process. The Assistant Deputy Under Secretary of Defense (Transportation Policy) believes that the additional efficiencies or improved management information obtained through PowerTrack® has other cost benefits associated with it. Although not quantifiable, these benefits should also be considered when computing the expected cost reduction associated with PowerTrack®.

Transportation Officer Responsibilities for Processing Bills Through PowerTrack®. Under reengineered transportation freight payment procedures, the Transportation Officer will perform several functions previously performed by DFAS. Currently, the Transportation Officer individually reviews the carrier invoices in PowerTrack® and approves invoices for payment, after which U.S. Bank electronically pays the carrier invoices. When AutoApproval procedures are fully implemented, the DoD goal is to have 95 percent of all carrier payment transactions approved and paid through AutoApproval procedures within 3 days. AutoApproval procedures allow carrier invoices to be automatically paid by U.S. Bank without prior review or approval by the Transportation Officer. In both scenarios, PowerTrack® generates an electronic monthly billing statement containing paid carrier invoices aggregated by LOA. The Transportation Officer will retrieve the monthly billing statement in PowerTrack® and certify the statement that both shipments and LOAs are valid and appropriate for payment.

Ensure Accurate Billing Statements. To ensure that the billing statement is correct, the Transportation Officer manually reconciles the individual shipments to the monthly billing statement and attempts to reconcile and validate each LOA before forwarding the certified monthly billing statement to DFAS for payment. At DFAS Indianapolis, the individual shipping documents were also required for payment to supplement the certified monthly billing statement because the certified monthly billing statement could not be reconciled with the detailed PowerTrack® statement. Subsequent to the audit, DFAS Indianapolis stated that PowerTrack® had been upgraded to support the reconciliation of monthly statement and that individual shipping documents were not required for proper payment. In addition, DFAS did not have appropriate appointment letters and signature cards on file as required by DoD Financial Management Regulations.

Transportation Officer Certification Responsibilities. Under PowerTrack® reengineered transportation freight payment procedures, Transportation Officers are required to certify the monthly billing statements. The certification process was previously done by DFAS and required reconciliation and validation of LOAs to verify that the billing statement was correct. We reviewed 19 monthly billing statements containing approximately 10,000 shipping documents and approximately

400 LOAs. Over a quarter of the LOAs processed required corrections before certification. The certification process is time consuming and complex. For example, each monthly billing statement contains a summary statement and a detailed billing statement. The summary statement provides the cumulative total costs associated with each LOA. The detailed billing statement is organized chronologically by carrier paid date and provides details of each individual shipment processed. Those two documents do not provide enough information to validate and reconcile the monthly billing statement. Thus, the Funds Manager Report and individual shipping documents are also needed. Several Certifying Officers interviewed were not aware of the Funds Manager Report and thus did not use it as a reconciliation tool. Validating and reconciling the LOA on the monthly billing statement to the individual shipping documents are an administrative burden. Subsequent to our field work, upgrades were made to PowerTrack® to facilitate the reconciliation process.

Certification of Other DoD Components' Funds. Additional problems arose when the transportation office attempted to certify shipments funded by another DoD Component. Some Transportation Offices only certified the LOAs that belonged to their installation while other Transportation Offices certified the entire monthly billing statement without ensuring the validity of the LOAs processed for others. Both processes resulted in a backlog of unpaid billing statements and associated late payment charges. The short-term solution was to establish alternate LOAs to use for payment purposes. The alternate LOAs should have expedited the payment of monthly billing statements. However, after payment, the Transportation Officers and Funds Managers still needed to reconcile the problem LOAs and distribute charges to the appropriate LOA. The proposed long-term solution was to implement comprehensive front-end edits (automated LOA conversion capability) to preclude invalid LOAs from being processed through PowerTrack®.

LOA Conversion Capability. The DoD attempted to insert an automated LOA conversion capability between PowerTrack® and DoD users to provide a standard format and to verify that only accurate and valid LOAs were used to process shipments. PowerTrack® functionality did not include an LOA verification because it did not need LOAs to pay carriers or to bill DoD for reimbursement. Likewise, DoD did not need all of the detailed information in an LOA to comply with fiscal requirements to properly account for and report on its use of transportation funds. The transportation LOA is largely a management information tool. The complex and costly effort being undertaken to insert and maintain an LOA conversion capability between DoD users and PowerTrack® is not the appropriate action to resolve problem LOAs. The LOA conversion would not resolve the root cause of the payment and accounting problem or simplify appropriations and budget control functions, it would not alleviate the need to process thousands of LOAs, and it would not reduce the overhead cost being incurred to track and report on less than one percent of the DoD budget. It would simply add another layer of cost and complexity to transportation freight operations and prevent DoD from fully realizing the reengineering opportunity at hand.

Current Business Practices

The transportation freight operations management and accounting business practices would result in DoD:

- continuing to incur similar labor costs to process transportation payments (the revised costs are unknown but estimated at approximately $35.9 million annually) as before implementation of PowerTrack®,
- unnecessarily incurring late payment charges, and creating unmatched disbursements, and
- increasing the risk of violating public law as it attempts to annually distribute $1 billion of transportation costs to more than 13,000 LOAs.

Processing Cost. The DoD strategy for processing transportation freight payments through PowerTrack® was complex and costly. It required training the staff in more than 500 Transportation Offices to execute accounting functions that a staff of DFAS technicians accomplished in the past. The DoD strategy depended on a system of LOAs that could not produce reliable management and accounting data with which to measure program effectiveness or make management decisions. PowerTrack® enabled DoD to reduce the time required to pay carriers (from 60 days to 3 days) and to provide transportation data used in management decisions. Yet DoD was unable to certify and pay U.S. Bank in a timely manner to avoid incurring late payment charges. In FY 2000, DoD had on average $8 million in overdue payments, some more than 165 days old. Unlike private industry, DoD managed and accounted for transportation payments at the lowest possible administrative level rather than as overhead expenses. If the cost to have three organizational entities (the Transportation Offices, Funds Managers, and DFAS) process payments for DoD transportation freight shipments does not exceed the DFAS billing rate, processing one LOA in FY 2001 would cost DoD an estimated $17.88.

Private Industry. Private industry, on the other hand, largely treats transportation expenses as overhead and allocates them accordingly, resulting in a $3 non-accounting processing cost per shipment.[3] If DoD adopted the commercial practice of accounting for transportation costs at the corporate level, it could substantially reduce its costs. Although DoD could continue to incur some unknown non-accounting cost to process the transactions, it could conservatively avoid approximately $34 million in accounting costs and late payment charges per year.

Late Payment Charges. Invalid and unfunded LOAs hamper the ability of DoD to consistently meet contractual agreements with U.S. Bank to avoid late payment charges. DoD contractually agreed to reimburse U.S. Bank for payments made to carriers on its behalf within 15 days of the date of the invoice or to pay a late payment charge equal to the Prompt Payment Act interest rate (6.75 percent at the time of the audit). From October 1998 through July 2000, it took DoD an average of 46 days to make transportation payments using the PowerTrack® service. Although this represents a 25 percent improvement from the 60-day average needed to pay carriers before using PowerTrack®, it is still only a marginal improvement

[3] Coopers & Lybrand L.L.P., Report of the DoD Reengineering Task Forced: Reengineering Transportation Documentation and Financial Processes, 'As Is' Phase, March 1998

considering the prompt payment agreement of 15 days. During the first 9 months of calendar year 2000, DoD incurred approximately $400,000 in late payment charges.

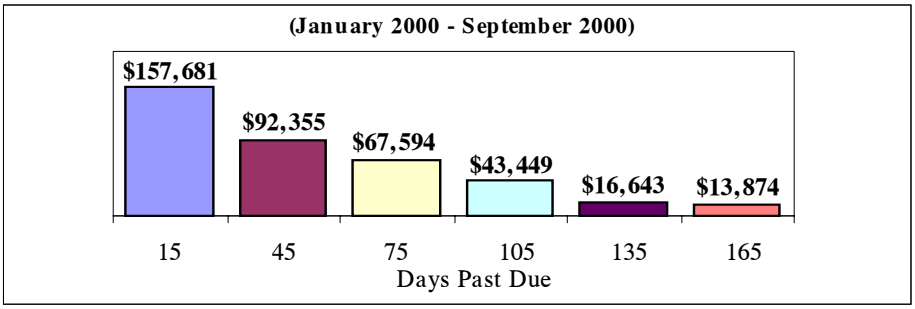


Figure 1. Late Payment Charges Incurred on Past Due PowerTrack® Balances

Almost 36 percent of the late payments were at least 75 days past due. DoD needs to adopt efficient and effective payment procedures to meet the aggressive 15 days payment schedule and to avoid late payment charges. Instead, DoD planned to use alternate LOAs as an interim solution to expedite payments.

Subsequent to completion of audit verification efforts, the Assistant Deputy Under Secretary of Defense (Transportation Policy) said that payment to U.S. Bank had improved. In August 2000, delinquent monthly billing statements were paid, including approximately $218,000 of interest. In September and October, approximately $30,000 and $55,000 of interest were paid, respectively. The Assistant Deputy Under Secretary of Defense (Transportation Policy) was working with DFAS and the Services to reduce the time to make payments. Some of the problems included bad or unfunded LOAs or missing monthly bank statements. DFAS began using the alternate LOA for the November 16, 2000, monthly bank statement, which the Assistant Deputy Under Secretary of Defense (Transportation Policy) believes will improve the timeliness of payments.

Alternate Lines of Accounting. The Deputy Secretary of Defense issued a memorandum on May 5, 2000, tasking DoD Components to identify alternate LOAs and obligate sufficient funds to process transportation freight payments. DoD intended to fund and use the LOAs to process problem disbursements involving invalid or unfunded LOAs. The intent was to use the alternate LOAs to expedite the payment process, not to reengineer it. The Assistant Deputy Under Secretary of Defense (Transportation Policy) reported that each Service had established alternate LOAs.

Use of Alternate LOA. According to the Deputy Secretary's memorandum, when an inaccurate LOA is not corrected within 2 days, DFAS is to pay the invoice citing the respective DoD Component alternate LOA. The transaction would then be treated similarly to an unmatched disbursement. The DoD Component is responsible for liquidating the alternate LOA by identifying and transferring the cost to the correct LOA. If the LOA was not sufficiently funded, the Funds Manager would obligate the needed funds. In a subsequent memorandum issued December 11, 2000, the number of days allowed before an alternate LOA is assigned was increased from 2 days to 3 days in an attempt to reduce the amount of rework needed to reassign the alternate LOA.

Risks of Alternate LOA. At least two risks are envisioned with the use of alternate LOAs. If an obligation is created when the shipment occurs, and another

is used to pay for the shipment, DoD will have effectively created a dual obligation for the transaction, which does not support funds management goals. On the other hand, incurring a liability without an accompanying obligation risks violating public law. Although we fully support the use of corporate-level LOAs for transportation freight budget and accounting purposes, the proposed method of using alternate LOAs is not the optimum solution to problem disbursements.

Problem Disbursements. Problem disbursements are a growing concern for the transportation community. Of the LOAs submitted to DFAS in July 2000, 45 percent were inadequate to effect payment. When DFAS cites alternate LOAs to pay transportation charges, the Transportation Officer is supposed to treat them as problem disbursements and reconcile them with original obligations, which is an unrealistic expectation. Even if Transportation Officers could have reconciled their own transactions, they did not have access to obligations for shipments they processed for other entities; therefore, they could not verify the accuracy of those LOAs. In addition, the Prompt Payment Act, funds management, and accounting were not core Transportation Officer functions or priorities. Furthermore, neither Transportation Officers nor Funds Managers have visibility over inaccurate LOAs. These assessments were evident in the 45 percent error rate of LOAs submitted to DFAS for payment after attempted verification by the transportation community. Even with the pressure to pay billing statements or incur late payment charges, it was taking DoD an average of 46 days to pay U.S. Bank.

Reconciling Problem Disbursements. We believe that reconciling problem disbursements would be less urgent after U.S. Bank has been paid. As a result, the number of unresolved problem disbursements will increase. In addition, transportation freight payment procedures did not accomplish prevalidation objectives and significantly increased the risk of pecuniary liability for the Transportation Officer who certified the invoice.

Prevalidation Requirements. Transportation freight payment procedures did not accomplish the DoD prevalidation objectives established in response to Section 8137 of Public Law 103-335, "DoD Appropriations Act 1995." The Act requires DoD to develop and implement a plan to match disbursements to corresponding obligations. DoD plans called for accomplishing this at the zero dollar threshold for all disbursements, except contract payments made by the DFAS Columbus. Although DFAS was attempting to comply with the DoD prevalidation initiative, it was frequently unable to do so because of pervasive accounting errors. In FY 2000, DoD maintained a monthly average of $8 million of transportation payments that were past due because of obligation and accounting data problems. As the number of transactions processed through PowerTrack® increases, DFAS would be forced to pay transportation payments without prevalidating them or incur increasing late payment charges. Such payments will result in an increased number of problem disbursements.

Corporate Approach

Centrally managed LOAs are essential to successfully reengineering transportation freight operations. Best commercial practices support treating transportation as a corporate expense for accounting purposes. MRM No. 15 challenged managers to update and restructure business practices consistent with statutory and technological constraints. DoD has taken sweeping steps to automate transportation freight payments. However, the complexity of the current approach to account for those payments creates an undue administrative burden on the transportation community

and denies DoD the optimum benefits of reengineering. We believe that DoD is pursuing the right course in establishing alternate LOAs to process transportation payments for problem disbursements. However, we do not believe that the alternate LOAs should be the exception and reserved only for problem disbursements. The DoD Components should establish centrally managed open allotments for all DoD transportation freight payments.

Use of Centrally Managed Open Allotments. The use of centrally managed open allotments with operating targets at the Department level would enable DoD to minimize its growing number of problem disbursements, eliminate late payment charges, prevent potential violations of public law, produce reliable metrics to measure program effectiveness, and eliminate costly detailed management and accounting procedures. Recent congressional testimony also identified the need for DoD to simplify its data documentation requirements to take advantage of electronic commerce with commercial systems. The use of open allotments will make possible the seamless, paperless process for paying transportation freight bills through vendor pay systems that DoD is trying to achieve.

Summary

The ongoing transportation reengineering effort provides a significant opportunity for DoD to avoid unnecessary administrative burdens associated with transportation freight shipments and avoid additional cost and to produce meaningful metrics with which to measure program effectiveness. PowerTrack®, the cornerstone of the DoD reengineering effort, is automating and expediting vendor payments, but internal DoD business practices are negating those benefits. By using an up-front LOA conversion system without further reengineering its business practice, DoD would be perpetuating inefficiencies that will result in additional processing costs, unnecessary late payment charges, and unmatched disbursements. The transition to automated carrier payments was a step in the right direction, but relying on PowerTrack® alone falls short of reengineering DoD transportation payment processes. Centrally managed open allotments with targets at the operating level, coupled with the automated carrier payment service, would provide DoD with an electronic commerce capability that attains the objectives of MRM No. 15 and realizes the optimal benefits of reengineering.

Recommendation, Management Comments, and Audit Response

A. We recommend that the Under Secretary of Defense (Comptroller) require the Defense Components to establish and fund open transportation allotments for budget and accounting purposes, and limit transportation lines of accounting to the Defense Component level to avoid late payment charges and problem disbursements and support the DoD prevalidation initiative.

Management Comments. The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) nonconcurred with the recommendation and stated that the use of open allotments are problematic and prone to misuse because the managers using the funds are not responsible for programming and budgeting the funds. Transportation costs are accumulated by high volume, low dollar value transactions and are better managed by those organizations that incur the costs. In May 2000, the Under Secretary of Defense (Comptroller) required the DoD Components to establish alternate lines of accounting. The LOA is used to convey

management information to the Components Funds Manager and it was not unreasonable to allow additional time for the Components to change business processes before significant reductions in the number of LOAs could be expected.

Audit Response. Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) comments were nonresponsive. The current organization structure effectively segregates duties and supervision with respect to rating shipments. If open allotments were prone to misuse as stated, the DoD should revise its current practices for managing billions of dollars in appropriations. For example, the DoD open allotments for military pay are valued at about $73 billion in contrast to the $1 billion in transportation payments processed through PowerTrack. Currently, the Army manages its overseas shipments through the open allotment process.

In most situations, the transportation office is responsible for processing, not for rating the shipments or programming or budgeting the funds associated with the shipments. The transportation office is a support function, independent of the program and Funds Manager. The current fund management practice does not provide effective controls for promptly recording, properly accounting, and accurately preparing reliable financial and management reports.
Seventy-three percent of the LOAs processed during a 14-month period reviewed were inadequate to effect payment and required reconciliation. The implementation of PowerTrack® has improved the Department's response time to pay the carrier but marginal improvement has been shown in completing the transaction and obtaining complete and accurate accounting and management cost information. Where alternate LOAs are now used, their monthly volume has increased and represents problem disbursements that must be either researched and reworked or left to stand as duplicate obligations. This effectively then becomes a transportation open allotment, by default.

Management comments also imply that the Transportation Officers will not act in the best interest of the Department. The Transportation Officer's main responsibility is to ensure that the shipment is transported effectively and efficiently. The majority of surface freight shipment rates are not set by the Transportation Officer but are negotiated and contracted by the Military Traffic Management Command. The Transportation Officer should not be encumbered by overly complex accounting requirements. By using open transportation allotments and limiting transportation LOAs, transportation costs can be managed effectively and efficiently as overhead, processing costs can be reduced, and management cost data can be captured through PowerTrack®.

The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) believes that "a reasonable amount of time must be allowed to implement the necessary process changes" before alternative actions are appropriate. Over a year has passed since the Deputy Secretary of Defense requested a reduction of LOAs and minimal change has occurred. The Under Secretary of Defense (Comptroller) has yet to assume a leadership role by analyzing required LOAs, clearly defining reduction targets, and initiating corrective actions where progress is not apparent. Further, the Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) also declined to specify how many years delay is reasonable before positive corrective actions should be taken. Therefore, we request the Under Secretary of Defense (Comptroller) reconsider the recommendation and provide additional comments to this report.

B. Controls Over Automated Transportation Payments

Although the automated transportation payment process is an improvement over the manual process, controls over these automated transportation payments were not adequate to safeguard sensitive financial information or to ensure production of reliable data. DoD had not fully assessed system risks, resolved system vulnerabilities, and included basic internal controls in the automated payment process. As a result, DoD reengineering efforts contain high risk of exposing sensitive financial data to unauthorized parties, risk noncompliance with public laws and regulations, promote operating in a business environment lacking strong management controls, and require Transportation Officers to assume responsibilities and associated liabilities more appropriately belonging to the financial community.

Controls

General Accounting Office (GAO) Publication, GAO/AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1999, provides the framework for obtaining reasonable assurance that operations are effective and efficient, produce reliable data, and comply with applicable laws and regulations. These standards are based, in part, on section 3512, title 31, United States Code (31 U.S.C. 3512), and the Computer Security Act of 1987, as well as OMB and DoD implementing regulations. The controls specified in the standards are the policies and procedures that enforce management's directives. These controls are critical to ensuring the integrity and reliability of data used by financial managers and relied on for the preparation of DoD financial statements and reports. Critical fundamental controls include identifying, analyzing, and managing relevant operational risks, segregation of duties, and restrictions to and accountability for resources and records.

Effectiveness of Controls. DoD had not established an effective system of management controls over its transportation freight payment process. PowerTrack® was integrated into the transportation payment process without a system accreditation. System vulnerabilities and risks had not been fully identified or assessed. PowerTrack® was also being incorporated into the DoD transportation payment process without full consideration of the overarching DoD architecture. Responsibility for the implementation and operation of the automated payment process was not clearly delegated or coordinated. As a result, DoD was processing its transportation freight payments through PowerTrack® without adequate system and management control measures to ensure that sensitive data and DoD financial management systems were safeguarded and that the system produced reliable data for financial statement reporting. The Federal Financial Management Improvement Act of 1996 (FFMIA) mandates that financial management systems comply substantially with financial management system requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. A brief synopsis of the criteria is available in Appendix D.

Financial Management Systems Security Requirements. DoD Directive 5200.28, "Security Requirements for Automated Information Systems," March 21, 1988, implements the requirements of OMB Circular No. A-130, "Management of Federal

Information Resources." The established criteria require that the automated information systems safeguard information against tampering, loss, and destruction. Automated information systems are defined as an assembly of computer hardware, software, firmware, or some combination of the three, configured to collect, create, communicate, compute, disseminate, process, store, or control data or information and includes application and operating system software. The DoD Directive states that the Head of each Component shall assign official(s) as the Designated Approving Authority responsible for accrediting each automated information system and for ensuring compliance with automated information systems security requirements. The accreditation is the formal approval given by the Designated Approving Authority to operate the system. DoD Instruction 5200.40, "DoD Information Technology Security Certification and Accreditation Process," implements the security requirements identified in Public Law 100-235, "Computer Security Act of 1987," OMB Circular No. A-130, and DoD Directive 5200.28. It prescribes procedures for the certification and accreditation process.

Mobile Code Policy Guidance. The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) issued policy guidance for the use of mobile code technologies in DoD information systems on November 7, 2000. The draft guidance had been available since December 13, 1999. The policy applies to all DoD information systems used to process, transmit, store, or display DoD information and specifically includes commercial off-the-shelf software and electronic commerce applications used but not owned by the Government. Mobile code (that is, ActiveX) is software transferred across a network from a remote system (that is, PowerTrack®) executed on a local system (that is, Transportation Officers' computers). The execution of mobile code is done without explicit approval or knowledge by the recipient. The policy defines ActiveX as "Category One" mobile code. Category One mobile code technologies pose a severe threat to DoD operations because they allow unmitigated access to all resources on the recipient's workstation, host, and remote system services and resources. The policy states that Category One mobile code is to be used in DoD information systems only when the mobile code is signed by a DoD-approved Public Key Infrastructure code-signing certificate and obtained from a trusted source. Until a DoD-approved Public Key Infrastructure code-signing certificate is available, the Chief Information Officer may approve alternate commercially available code-signing certificates. Therefore, we believe that DoD needs to:

- disable the downloading and execution of all mobile code on DoD local systems that is not operating in accordance with DoD policy, and

- ensure that ActiveX mobile code used in PowerTrack® is replaced with mobile code that is in accordance with DoD policy.

Results of Defense Information System Agency Security Test and Evaluation Review. In the early stages of PowerTrack® implementation, the MRM No. 15 Program Management Office asked the Defense Information System Agency (DISA) to conduct a Security Test and Evaluation (ST&E) of the PowerTrack® client and end-user application controls to identify associated security features and risks. The ST&E is one of eight tasks within the DoD Instruction 5200.40, "DoD Information Technology Security Certification and Accreditation Process" (DITSCAP), validation phase used to certify the integration and operation of system security features. On January 31, 2000, DISA issued the results of its ST&E, and could not give PowerTrack® an approval to operate within DoD because of major concerns

uncovered during the ST&E. The DISA ST&E identified 18 security vulnerabilities and raised 8 significant issues for management attention. Because the ST&E is only a part of the system security assessment, DISA also recommended that a complete system security assessment be conducted including the testing of PowerTrack's® infrastructure and servers or evidence that such testing was conducted. DISA identified the following security issues during its ST&E review.

- **ActiveX Mobile Code.** PowerTrack® uses ActiveX technology that has been identified by DoD as a risk Category One. According to DISA, Category One technologies have known security vulnerabilities with few or no countermeasures once the mobile code begins executing. ActiveX mobile code has the potential to severely degrade DoD systems. The high risk of using Category One technologies outweighs all possible gains. The May 11, 2000, Under Secretary of Defense for Acquisition, Technology, and Logistics memorandum, states that U.S. Bank was going to remove ActiveX mobile code from PowerTrack® by December 2000. In response, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) issued a waiver allowing the use of ActiveX mobile code to process transportation freight payment transactions. As of January 2001, ActiveX continues to operate through PowerTrack® in DoD systems.

- **Windows 95 and Windows 98 platforms.** DISA did not recommend using PowerTrack® with Windows 95 or Windows 98 platforms because of their inherent security weaknesses. The identity of each user authorized access to PowerTrack® should be established positively before authorizing access. Windows 95 and Windows 98 access controls can be easily bypassed. Although these weaknesses may be mitigated by procedural and personnel access controls, in combination with other weaknesses, the use of Windows 95 and Windows 98 platforms pose sufficient concerns so that DISA recommended these platforms not be used.

- **User Identifications and Passwords.** DISA reported that the history mechanism of Internet Explorer 5.0 (used with PowerTrack®) stores unencrypted user identification and passwords on the user's personal computer where it can be accessed and read by unauthorized persons.

- **Information System Personnel.** DISA stated that an Information System Security Officer had not been identified or designated responsibility for overseeing PowerTrack® as required by the provisions of DoD Directive 5200.28. DoD Directive 5200.28 states that the Designated Approving Authority, who is responsible for overseeing PowerTrack®, will assign the Information System Security Officers. The Under Secretary of Defense for Acquisition, Technology, and Logistics needs to appoint a Designated Approving Authority for PowerTrack®.

- **User Profiles.** Users are able to set up their own organization profiles in PowerTrack®. Unrestricted access to PowerTrack® user profiles allows establishment of inappropriate carrier profiles and business rules regarding carrier payment approval. Such access allows for potential collusion between user and carrier that could result in financial loss.

Office of the Secretary of Defense Position on DITSCAP Applicability to PowerTrack®. We commend Assistant Deputy Under Secretary of Defense (Transportation Policy) for obtaining an interpretation of the DoD Instruction 5200.40, commonly referred to as DITSCAP, applicability to PowerTrack®. The August 30, 2000, Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) response advises that DITSCAP certification and accreditation of PowerTrack® were not required because DoD did not own the software rights to the application. However, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) directed that the impact of PowerTrack® implementation on DoD network information assurance be understood. In addition, he advised that an amendment to the local base level System Security Accreditation Agreement was necessary and follows in Phase 4 of DITSCAP. Consequently, the Assistant Deputy Under Secretary of Defense (Transportation Policy) did not consider DITSCAP applicable and continued to aggressively implement PowerTrack® without fully assessing the impact on DoD network information assurance or addressing the reported security risks or conducting additional tests as recommended by DISA. Since the ST&E, the office of the Assistant Deputy Under Secretary of Defense (Transportation Policy) has continued to push towards full implementation of PowerTrack® at all DoD shipper sites. In addition, transportation regulations have been updated and require that DoD only contract with commercial carriers who conduct business through PowerTrack®. Thus, DoD commercial freight carriers are required to be PowerTrack® capable within 6 months of the transportation office becoming PowerTrack® enabled.

Office of Inspector General, DoD Position on DITSCAP Applicability to PowerTrack®. Based on our review of the automated payment process and subsequent discussions with the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), we believe that system security requirements outlined in DoD Directive 5200.28 and implemented in DoD Instruction 5200.40 are applicable to PowerTrack®. The guidance states that its provisions apply to all automated information systems that collect, communicate, store, or control data, to include application software. PowerTrack® is an electronic commerce application that is an integral part of the DoD reengineered transportation payment process. In addition, DoD transportation data will reside within PowerTrack® and will be used and relied on in making payments to carriers and U.S. Bank. In the absence of more specific implementing guidance, DITSCAP is the most comprehensive guidance available to ensure that DoD interests and assets are protected. It would be prudent to fully assess the risks to the transportation payment data, commercial carriers, and DoD infrastructure before approval to operate any system, including commercial off-the-shelf products and electronic commerce applications not owned by the Government. All vulnerabilities should be identified and risks mitigated prior to integration. PowerTrack® represents a new process for doing business. The Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) had not fully assessed the impact of using an electronic commerce application not owned by the Government on the DoD operating environment and DoD data. In effect, new or revised policy guidance is needed to clarify management's responsibility with respect to all DoD information systems used to process, transmit, store, or display DoD information. The guidance should specifically address commercial off-the-shelf products and electronic commerce applications not owned by the Government. In addition, standard contracting language is needed for all electronic commerce application contracts that specifies the responsibilities for ensuring compliance with established system security and management control requirements.

System Security. The Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) had not fully assessed the impact of this new business process on the DoD infrastructure. As a result, DoD risks unauthorized access to sensitive financial data and noncompliance with public laws and regulations. Figure 2 shows the relationship between the DoD infrastructure and the U.S. Bank PowerTrack® service.

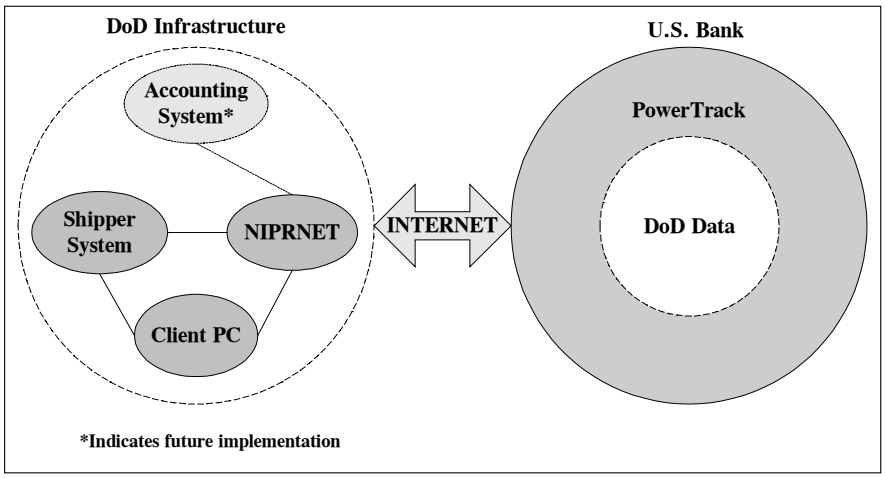


Figure 2. Systems Relationship

Access Controls. The willingness of trading partners to transact business with DoD via the Internet will decline if all parties are not assured that confidential information, such as vendor bank account numbers, will remain confidential. To protect and authenticate electronic payment transactions made via the Internet and data within PowerTrack®, DoD needs to immediately implement a Public Key Infrastructure or digital signature and encryption capabilities. Federal Information Protection Standards established levels of Public Key Infrastructure security. Accordingly, the GAO determined that Federal Information Protection Standard 228 level 2 protection is appropriate for DoD financial management systems. Digital signatures and encryption capabilities are widely used methods of improving system security because they allow DoD to ensure that:

- data contained in electronic transactions and messages have not been altered and can be fully relied on for financial statement purposes,
- system users can confirm who is on the other end of an electronic transaction,
- parties involved in a transaction cannot later deny that they participated in the transaction, and
- data cannot be accessed and read without proper authorization.

Given the sensitivity and dollar value of transportation freight data transmitted over the Internet and the legal, financial, and national security implications of unauthorized access to or use of that data, DoD should require all PowerTrack® transactions be encrypted and contain digital signatures.

Internal Management Controls

Fundamental management controls over the processing of PowerTrack® transactions were not established or functioning as intended. We identified material control weaknesses in the areas of operating guidance, training, approval of payments, and payment procedures. Also, PowerTrack® access privileges and appropriate carrier invoicing models were not established to ensure effective and efficient operations, data reliability, and compliance with applicable laws and regulations.

Operating Guidance. DoD did not develop adequate operating guidance for processing transactions through PowerTrack®. The DoD Transportation Regulation is the governing guidance over transportation transactions and payments. The regulations were silent with regard to transactions processed through PowerTrack® and the additional responsibilities of the Transportation Officers. Although DFAS does not have policy jurisdiction over the Transportation Officers or Funds Managers, DFAS issued a memorandum, "Interim Manual Operating Procedures for Processing PowerTrack® Payments," June 30, 1999. DFAS issued the guidance because no systems electronic interface existed between PowerTrack® and DoD payment and accounting systems. Of the 12 sites we visited, only 1 site was aware of the DFAS interim guidance.

Revised Guidance. In April 2000, U.S. Transportation Command revised DoD Regulation 4500.9-R, "DoD Transportation Regulation," and incorporated the business rules for processing the commercial freight payments through PowerTrack®. The guidance delegated additional responsibility to Transportation Officers and Funds Managers. The transportation office is now responsible for the approving and certifying functions. The Funds Managers are required to review the PowerTrack® Fund Managers Report to confirm that LOAs are properly cited and to determine whether corresponding obligations exist. The guidance, however, did not provide the necessary instructions to enable these officials to accomplish their additional responsibilities or provide procedures for accomplishing those tasks in an automated PowerTrack® environment. For example, the guidance is silent on how to approve and certify transportation payments in PowerTrack®. In addition, the DoD Regulation 4500.9-R tasked Funds Managers over whom they do not have cognizance. Fund Manager responsibilities are under the purview of the Under Secretary of Defense (Comptroller). DoD Regulation 4500.9-R does not adequately reflect the current operating environment for processing transportation freight payments. For example, few Fund Managers have access to PowerTrack® although they have been assigned specific responsibilities. The financial management regulations need to be revised to support the DoD transportation regulations as it pertains to Fund Managers and incorporate their responsibilities in PowerTrack®. The revised guidance should be fully distributed to all transportation offices and Fund Managers.

Transportation Officer Training. Transportation Officers were not given adequate training to properly transact business through PowerTrack®. They received only basic PowerTrack® training from U.S. Bank and no finance and accounting training. U.S. Bank made overall introduction to PowerTrack® training available to all PowerTrack® users. A distance learning package was also created for users who did not attend the presentation. However, the PowerTrack® users we interviewed who had completed the training did not understand PowerTrack® critical functionality or how to use its essential modules and screens. Also, Transportation Officers had not

received training in finance and accounting to understand and successfully process LOAs nor training as a Certifying Officer to prepare them to certify invoices for payment. For example, the "Business Rules - Invoicing Module," is critical to managing the payment process from the Transportation Officer and Fund Manager perspective. The invoicing module informs the users how carrier transactions will be processed. Even though Transportation Officers may have known how to access and complete this module, they did not always understand their options or the laws and regulations governing their choices. Likewise, Transportation Officers knew how to access and certify invoices for payment in PowerTrack®, but they were not aware of the financial or legal implications of their actions. Transportation Officers and Fund Managers should be trained to ensure that they have a complete understanding of the functionality of PowerTrack® and the laws and regulations governing financial transactions.

Fund Manager Training. Fund Managers were not provided PowerTrack® training. Few, if any, Funds Managers had access to PowerTrack® even though the DoD guidance gives them a critical role in the transportation payment process. According to the MRM No. 15 Program Management Office, the need for Funds Manager training was recognized and in August 2000, a financial management development team was formed. In March 2001, a PowerTrack web-based training application and CD-ROM became available for Funds Manager training. However, a requirement was not established for Funds Managers to receive this training nor were controls established to ensure training was received.

PowerTrack® Access Privileges. Procedures were not established to ensure appropriate access and define user privileges in PowerTrack®. The OMB Circular A-123 requires that basic controls be in place to ensure that access to resources and records is limited to authorized individuals and accountability for the custody and use of resources is appropriately assigned and maintained. DoD Directive 5200.28 also requires that user access to information and operations be limited to that for which the user is entitled by virtue of clearance and formal access approval. As of June 2000, approximately 1,600 DoD users had been granted access to the PowerTrack® system, yet DoD had not established procedures for granting access or defining user privileges in PowerTrack®. U.S. Bank controls access to PowerTrack®. Anyone desiring access can contact U.S. Bank at which point U.S. Bank may or may not confirm their authority with DoD before allowing them access. Furthermore, DoD does not monitor PowerTrack® user profiles or activity to ensure appropriate access, privileges, and use. DoD needs to review, evaluate, and certify PowerTrack® access and privileges. This has yet to be accomplished. We identified a number of serious instances where DoD could not ensure the appropriateness of PowerTrack® transactions.

Contractor Access. At Wright-Patterson Air Force Base, contractors are authorized to perform transportation freight shipping functions such as initiating, rating, and assigning shipments, but not approving payments. However, we identified a contractor employee who had PowerTrack® approval privileges for payments up to $25,000. Approval of carrier payments is an inherently governmental function that can legally be performed only by a Government employee. We identified five payment transactions totaling $662 that a contractor had approved by searching the payment history of the individual shipment. The Transportation Officer was not aware of the access level or privileges assigned to

the contractor. U.S. Bank was unable to provide us with a log of payments approved by the contractor, so we were unable to determine the extent of the problem.

Administrator Access. The Information Manager, Blue Grass Army Depot, had approval authority for payments up to $25,000. The Information Manager is responsible for system administration and should never have payment approval authority. In addition, at each transportation office, at least one user was assigned administrative access to PowerTrack®. The administrative access allowed users to add, delete, or modify user and carrier profiles within their respective domain. At several of the sites we visited, administrative users also had maximum payment approval authority.

Retiree Access. At the Defense Distribution Depot, Norfolk, a user who had retired in July 1999 still had an enabled user profile with a $3,000 payment approval authority as of June 2000.

Carrier Profiles. Similar control problems exist with carrier profiles as with the user access and privileges. The Transportation Officer or U.S. Bank can establish carrier profiles in PowerTrack®. Carrier profiles define how transactions will be processed as well as how carriers will be paid. Carrier profiles prescribe invoicing modules and automatic payment options to be used with each carrier.

Controls Over Carrier Profiles. Control over carrier profiles is critical because they authorize payment based on DoD input, carrier input, or automatic payment. Yet DoD had not established basic controls over establishing carrier profiles or ensured that Transportation Officers understood how to create and use them. In addition, DoD does not monitor carrier profiles to ensure that they are properly defined in the system. As a result, the Transportation Officer at the Blue Grass Army Depot did not know that at least three carrier profiles were defined with unlimited dollar thresholds, which meant that carrier invoices were automatically approved for payment in PowerTrack® on notice of delivery without further transportation office involvement. DoD needs to establish and monitor profiles to maintain an acceptable level of operating security.

Transportation Officer Liabilities. Control procedures over the certification of PowerTrack® invoices were not adequate to ensure segregation of duties as required by internal control standards. Transportation Officers were provided neither the training nor the tools to successfully function as Certifying Officers.

Certifying Officer Delegation. In June 1999, the DFAS "Interim Manual Operating Procedures for Commercial Transportation Purchased Through the U. S. Bank PowerTrack® Service," requires Transportation Officers to function in both an approval and certification capacity contrary to basic principles of internal controls. GAO publication, GAO/AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1999, prescribes that, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud." This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transaction, and handling any related assets. One individual should not control all key aspects of a transaction process. Further, as previously discussed, Transportation Officers have neither sufficient visibility over funding nor were they adequately trained to conduct Certifying Officer duties. The Certifying Officer responsibilities are

specified in 31 U.S.C. 3325 and 3528, which states that the Certifying Officer is responsible for information stated in the voucher, supporting documentation and records, computation, and the legality of a proposed payment under the appropriation or fund involved. The Certifying Officer responsibility is consistently described in the DoD Financial Management Regulations, Volume 5, Chapter 33, "Accountable Officials and Certifying Officers." Thus, the Certifying Officer is responsible for ensuring and validating that the appropriate funding is available and used on the PowerTrack® monthly invoice. Procedural guidance was not sufficient to ensure data accuracy or consistent and efficient processing of PowerTrack® invoices. Therefore, we consider the delegation of the certification responsibility to be unacceptable because Transportation Officers are inappropriately exposed to pecuniary liabilities without due preparation.

Certifying Officer Responsibilities. Each month, the transportation office obtains a PowerTrack® billing statement aggregated by LOA. The Transportation Officer is supposed to certify the statement within 5 business days. To accomplish this, the Transportation Officer must review the billing statement to ensure that it is correct, certify the statement for payment, and submit it to the appropriate DFAS office for disbursement. The DoD goal appears to be that DFAS will disburse funds based on the Transportation Officer's approval, without further review or certification. Inspector General, DoD, Report No. D2000-139, "Controls Over the Integrated Accounts Payable System," June 5, 2000, identified numerous deficiencies in the Department's procedures for handling vendor payments. GAO/AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1999, requires access restrictions and segregation of key duties in authorizing, processing, recording, and reviewing transactions. The majority of DoD transportation payments are processed using vendor pay systems. Therefore, the internal control environment for receipt and acceptance of transportation shipments prescribed by 5 Code of Federal Regulations Part 1315, "Prompt Pay Act: Final Rule," must apply and DoD must ensure that sufficient controls exist so that no single individual is responsible for the entire transportation freight transaction.

Pecuniary Liabilities. Title 31, U.S.C., 3528, and the DoD Financial Management Regulation, Volume 5, Chapter 33, section 3302, hold Certifying Officers pecuniarily liable for erroneous payments. Draft Certifying Officer business rules delegating certification responsibilities will result in undue risk of pecuniary liability to DoD Transportation Officers. In 1998, DoD implemented 31 U.S.C. 3325, which requires certification of Departmental disbursements. Under these regulations, Certifying Officers are considered pecuniarily liable for erroneous payments resulting from the negligent performance of their duties. They are responsible for paying payments that are determined to be illegal, improper, or incorrect because of inaccurate or misleading certification that does not represent a legal obligation under the appropriation or are prohibited by law. For most vendor pay actions, DFAS performs Certifying Officer functions. DoD procedures for reimbursing U.S. Bank for PowerTrack® invoices rely heavily on the controls in vendor pay systems. Yet DoD is deviating from those controls for transportation freight payments by recommending that the Military Departments and Defense agencies appoint Transportation Officers to certify carrier payments. The Transportation Officers do not have access to the accounting systems and have no visibility over the supporting obligation data for funding payments, besides their own. Therefore, they have no ability to validate (or certify) the validity of other LOAs, but DFAS does.

In July 2000, DFAS reported that 45 percent of the certified PowerTrack® invoices were delayed for payment because of missing or inadequate obligations or inaccurate and incomplete LOAs. After certification for payment, the Certifying Officer should be prepared to assume full liability for all improper payments, because the GAO may not provide relief for transportation officials who make improper certifications, especially when not initially supported by a valid obligation. The use of the Transportation Officer as certifying official is a choice of last resort. We believe that transportation payment certification responsibilities should be retained by DFAS along with their vendor payment responsibilities to ensure total visibility of all payments.

Certifying Officer Training. The training provided to date was insufficient to instruct the Transportation Officers in their roles and responsibilities for certifying PowerTrack® invoices. In most cases, officials required to perform certification functions were not and could not comply with requirements. At the sites visited, we received mixed responses regarding what constitutes PowerTrack® invoice certification procedures and responsibilities. This lack of understanding made clear that Transportation Officer certifications of PowerTrack® invoices were all too often superficial at best. Certifying Officers are also required to review Transportation Account Codes and LOAs for accuracy prior to certifying invoices, but this was not being done at the sites we visited. Furthermore, as previously discussed, Transportation Officers simply were not provided the level of training commensurate with the Certifying Officer obligations and responsibilities imposed on them. The Certifying Officers need to receive Certifying Officer training. According to the Assistant Deputy Under Secretary of Defense (Transportation Policy), DFAS developed a Certification Officer Legislation Training compact disk. The Military Components and Defense agencies provided comments to the training disk in November 2000. Once the Component and agency comments are considered, the training disk could be used as a training tool for the Certifying Officers.

Post Payment Random Reviews. Draft Certifying Officer business rules provide for post payment random reviews. The intent of a post payment review is to ensure payment accuracy and minimize the risk of errors and fraud. However, the business rules assign responsibility for the post payment random reviews to the same office that has control over the transportation freight process. The transportation freight process includes establishing user profiles, authorizing shipments, and certifying invoices for payment. Furthermore, the business rules did not specify the decision rules or corrective actions needed based on the result of the review. Therefore, we question whether the reviews will be an effective tool to detect error or fraud unless designed and conducted at the DFAS level by individuals who do not have control over the transportation freight process.

Summary

Although PowerTrack® is a commercially owned electronic commerce application, it is incorporated into the DoD transportation payment process. PowerTrack® processes, stores, transmits, and displays sensitive DoD financial information and contractor proprietary data. The PowerTrack® data are used by DoD to pay the carrier and to reimburse U.S. Bank. Therefore, PowerTrack® should comply with the same provisions as other DoD financial management

systems. The Federal Financial Management Improvement Act and supplemental OMB and DoD guidance are applicable to PowerTrack®. Controls over the automated transportation freight payment process were not adequate to safeguard sensitive information or to ensure the production of reliable data. DoD must fully assess and mitigate the risks associated with using the PowerTrack® service. Continuing to operate without effective security and internal controls is imprudent. Likewise, DoD efforts to expedite an implementation strategy that circumvents prescribed management controls and places DoD employees at unneeded risk is not in the best interest of the Department. Delegated certification authority inappropriately exposed Transportation Officers to pecuniary liabilities. Also, Transportation Officers were inadequately trained to accomplish Certifying Officer responsibilities. All too often PowerTrack® invoice certifications were superficial at best. Lastly, we do not believe the post payment random reviews as structured will be effective deterrents to error or fraud unless designed and conducted at the DFAS level by individuals who do not have control over the entire transportation freight payment process.

Recommendations, Management Comments, and Audit Response

Deleted and Renumbered Recommendations. As a result of the comments, we revised Recommendation B.1.a. to incorporate the intent behind draft report Recommendations B.1.b. and B.1.c. We deleted draft report Recommendations B.1.b. and B.1.c. and renumbered the remaining recommendation to Recommendation B.1.b.

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

a. Appoint an executive agent to take responsibility for operation of PowerTrack® within DoD and to ensure that all control risks associated with its use are understood and mitigation of risks are planned and PowerTrack® is compliant will all applicable DoD policies.

b. Contract with U.S. Bank to phase out the use of ActiveX or use ActiveX in accordance with DoD policy.

Management Comments. The Assistant Deputy Under Secretary of Defense (Transportation Policy) nonconcurred with the Recommendations B.1.a., B.1.b., and B.1.c., stating that the recommendations propose a bureaucratic process for assessing the security implications of a commercial off-the-shelf application. PowerTrack® is a commercial off-the-shelf web-based application and DoD has no software rights to this application. As such, DoD Information Technology Security Certification and Accreditation Process (DITSCAP) requirements do not apply. The Assistant Deputy Under Secretary of Defense (Transportation Policy) agreed that DoD needs and would strongly support an effective commercial off-the-shelf assessment policy to ensure security of DoD systems.

The Assistant Deputy Under Secretary of Defense (Transportation Policy) concurred with Recommendation B.1.b., stating that it complies with DoD policy. On April 12, 2001, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) issued a memorandum that stated the use of

ActiveX in PowerTrack® complies with DoD policy because ActiveX is signed with Microsoft Authenticode, an approved commercial code-signing certificate.

Audit Response. The Assistant Deputy Under Secretary of Defense (Transportation Policy) met with the Deputy Inspector General, DoD, on April 16, 2001, to discuss the recommendations and tone of the report prior to submitting comments. The Assistant Deputy Under Secretary of Defense (Transportation Policy) comments on renumbered Recommendation B.1.b. (draft report Recommendation B.1.d.) are fully responsive. The Assistant Deputy Under Secretary of Defense (Transportation Policy) comments on revised Recommendation B.1.a. are nonresponsive. PowerTrack® is more than a commercial off-the-shelf web-based application. PowerTrack® is an electronic commerce application that stores DoD data and is an integral part of the DoD transportation payment process. Regardless of whether the electronic commerce application is a new means for doing business within DoD, management is ultimately responsible for implementing sound financial management practices and systems. Current policy exists that defines management responsibility for establishing effective internal and system controls. With the Department's plans for PowerTrack® to operate as a subsidiary ledger for transportation, it is imperative for PowerTrack® to substantially comply with the same Federal financial system requirements as the rest of DoD accounting, finance, and feeder systems.

It is not bureaucratic to recommend the responsible proponent to act prudently to protect DoD data and aggressively implement information assurance requirements. Although appointment of a Designated Approving Authority and Information System Security Officer seems appropriate for security risk management of PowerTrack, the execution of the requirements placed on the Under Secretary of Defense for Acquisition, Technology, and Logistics by the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) August 30, 2000, memorandum will also meet the intent of draft report Recommendations B.1.a, B.1.b., and B.1.c. The memorandum stated that integration of commercial services with existing DoD legacy systems is a new implementation model but does not require a DITSCAP certification and accreditation. However, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) memorandum elaborated by stating that up front consideration to understand the impact of the implementation on DoD network information assurance is required. In addition, the executive agent responsible for the business process should ensure that risks associated with the use of commercial off-the-shelf web-based applications are understood and the mitigation of those risks is planned. The executive agent, in collaboration with each affected Component CIO, will determine the DoD–wide approach for determining, mitigating and accepting risk of implementation. Establishing an executive agent responsible for overall management controls associated with the automated transportation payment process and executing the requirements established by the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) will meet the intent of our draft report Recommendations B.1.a., B.1.b., and B.1.c. Therefore, we request the Under Secretary of Defense for Acquisition, Technology, and Logistics reconsider the revised recommendation.

B.2. We recommend that the Under Secretary of Defense (Comptroller):

a. Retain Certifying Officer responsibilities at the Defense Finance Accounting Service for PowerTrack® payments.

b. Revise the DoD Financial Management Regulation to reflect changes in the Defense Transportation Regulation as they pertain to Funds Managers' use of PowerTrack®.

Management Comments. The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) concurred in principle with Recommendation B.2.b. stating that the Defense Transportation Regulations would be reviewed and the DoD Financial Management Regulation updated as appropriate. The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) nonconcurred with Recommendation B.2.a. stating that the Transportation Officers do have the expertise to certify the monthly billing statement because the Transportation Officer is the only one responsible for assuring that the transportation services requested are for valid purposes. The Transportation Officer must understand and have access to financial data and rely on the controls in place to ensure that the information obtained is valid and funding is available. Sound financial management and internal controls for disbursing practices dictate that Certifying Officers be independent and organizationally separate whenever practical.

Audit Response. The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) comments are responsive to Recommendation B.2.b. and nonresponsive to Recommendation B.2.a. To ensure strong internal controls, the Certifying Officer must know the subject matter (that is, transportation), voucher preparation, appropriations, accounting classifications, and payment process. Although we agree with the Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller) that the Transportation Officer is the most knowledgeable individual for assuring that the transportation services requested are valid, he is not the most knowledgeable individual on the obligation data supporting the 13,000 LOAs. A representative from the Under Secretary of Defense (Comptroller) stated during a meeting with us on April 16, 2001, that a task force was formed to explore ways to provide the Transportation Offices with the additional funding knowledge but to date it has yet to occur. Current practice is asking the Transportation Officer to rely on the financial data even though during a 14-month period DFAS was unable to validate 73 percent of the financial data in PowerTrack. DFAS, which is knowledgeable in voucher preparation, appropriations, accounting classifications, and the payment process and has access to appropriations, should rely on the Transportation Officer with regard to the legality and validity of the shipment. The Transportation Officer acting as the accountable official would be responsible for the internal controls related to the shipment and approval of carrier payment; applicable DoD regulations; providing the Certifying Officer with timely and accurate data to ensure that payments are supportable, legal, and computed correctly; and timely reconciliation of possible or actual erroneous payments. The Transportation Officer will still be pecuniarily liable for erroneous payments made as a result of negligent performance of official duties. We request the Under Secretary of Defense (Comptroller) reconsider Recommendation B.2.a. and provide additional comments to the final report.

B.3. We recommend that the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence):

a. Establish guidance to clarify management responsibilities and ensure that the appropriate level of information security is applied and associated risks are assessed when using any information system that transmits, stores, or displays DoD information. The guidance should be specific to commercial off-the-shelf products and electronic commerce applications used but not owned by the Government, such as PowerTrack®.

b. Establish standard contracting language for all information systems contracts. The contracting language should identify the responsibilities for ensuring compliance with financial management systems requirements and systems and data security for electronic commerce applications that are used but not owned by the Government.

c. Update policy to establish the applicability of Defense Information Technology Security Certification and Accreditation Process to commercial off-the-shelf products and electronic commerce applications used but not owned by the Government, such as PowerTrack®.

d. Provide guidance to clarify the Designated Approving Authority responsibilities with respect to the coverage of DoD-wide information systems including the use of commercial off-the-shelf products and electronic commerce applications, such as PowerTrack®.

e. Validate the security connection and all security controls associated with using PowerTrack®.

Management Comments. The Deputy Chief Information Officer, Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) concurred in principle with all recommendations, stating that current guidance already exists that describes management responsibilities with regard to systems security and risk assessments and the Designated Approving Authority. A distinction was made between commercial off-the-shelf products and electronic commerce applications. A new 8500-series Information Assurance policy is being issued that will consolidate current guidance and policies and include additional policy and procedures that will explicitly address commercial off-the-shelf products and electronic commerce applications, such as PowerTrack®. Management is working with the Under Secretary of Defense for Acquisition, Technology, and Logistics to determine whether additional contracting language is necessary. Management stated that DITSCAP instructions are also being reviewed and will incorporate instructions on commercial off-the-shelf products and electronic commerce applications. Management has already taken action to validate the use of ActiveX mobile code to ensure its use complies with DoD policy.

Audit Response. The Deputy Chief Information Officer, Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) comments are partially responsive. Management validated and approved the use of ActiveX mobile code in the PowerTrack® application, however, no specific actions were discussed about actions taken to validate the security controls in PowerTrack. Therefore, management is requested to provide additional comments to the final report on Recommendation B.3.e. explaining specific actions planned and expected completion date for validating the security controls in PowerTrack.

B.4. We recommend that the U.S. Transportation Command:

a. Ensure that each transportation office assigns an individual who is not involved in payment approving and certifying processes to administer and control PowerTrack® profiles.

b. Implement Public Key Infrastructure access based on Federal Information Protection Standard 228, level 2 for all PowerTrack® transactions, access, and data transmission.

c. Revise the Defense Transportation Regulation to reflect the current automated transportation freight payment process.

d. Ensure that Transportation Officers are trained and fully understand the transportation payment process and functionality of PowerTrack®.

e. Develop and implement standard operating procedures to establish and monitor PowerTrack® access, user privileges and carrier profiles.

Management Comments. The Assistant Deputy Under Secretary of Defense (Transportation Policy) coordinated her response with the U.S. Transportation Command. Management concurred with Recommendation B.4.c. stating that the Defense Transportation Regulation was updated and reflected the current process for all transportation modes. Management concurred with Recommendation B.4.c., and concurred in principle with Recommendations B.4.a., B.4.b., B.4.d., and B.4.e. stating that the actions recommended are needed, but did not believe that U.S. Transportation Command is responsible for implementing the recommended actions and believes that Recommendations B.4.a., B.4.b., B.4.d., and B.4.e. are more appropriately suited for the Military Components and Defense agencies.

Audit Response. Management comments are nonresponsive. We believe that the U.S. Transportation Command needs to take responsibility for the automated transportation payment process and ensure that management controls are established and effective to safeguard DoD assets. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics reconsider its responsibilities and provide comments to Recommendations B.4.a., B.4.b., B.4.c., and B.4.d. on the final report.

B.5. We recommend that the each of the Chief Information Officer of the Military Components:

a. Ensure that the System Security Authorization Agreement associated with each transportation office includes the PowerTrack® application.

b. Disable the downloading and execution of all mobile code on all local systems unless the mobile code is compliant with DoD policy.

Army Comments. The Army did not comment on the draft of this report.

Navy Comments. The Navy concurred with the recommendations, stating that it will ensure that System Security Authorization Agreements associated with each transportation office are updated to include the PowerTrack® application and ensure that all mobile code is executed in compliance with DoD policy.

Air Force Comments. The Air Force concurred with the Recommendation B.5.b., stating that it will issue instruction for all relevant parties to comply with DoD mobile code policy. The Air Force did not comment on Recommendation B.5.a.

Audit Response. The Navy comments are fully responsive. The Air Force comments are responsive on Recommendation B.5.b. We request that the Army provide comments on the final report and that the Air Force provide comments on Recommendation B.5.a. on the final report.

Appendix A. Audit Process

Scope and Methodology

Work Performed. We evaluated the controls over the automated transportation freight payment process, data accuracy, financial reporting requirements, and the implementation of the PowerTrack® service. Specifically, in February 2000, we judgmentally selected 12 transportation offices from a universe of 440 offices using PowerTrack® to review their automated transportation payment process. The sites visited included two Army, two Air Force, three Navy, three Defense Logistics Agency activities, and two Defense Contract Management Agency activities. The sites were selected based on geographic location, volume of transactions processed through PowerTrack®, and Defense activity.

At 11 of the 12 sites, we reviewed monthly bank statements certified during the months of December 1999 through March 2000. We reviewed 1,833 transactions processed on 19 certified monthly bank statements. We interviewed personnel involved in the transportation payment process including Transportation Officers and Funds Managers. We extracted and analyzed PowerTrack® data processed from February 1999 through May 2000. We researched laws and regulations governing financial reporting requirements. We met with representatives from the Office of the Assistant Deputy Under Secretary of Defense (Transportation Policy); DFAS; the DoD transportation community; PricewaterhouseCoopers, Limited Liability Partnership; and U.S. Bank.

DoD-Wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goals, subordinate performance goals and performance measures.

FY 2001 DoD Corporate Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

- **FY 2001 Subordinate Performance Goal 2.4:** Meet combat forces' needs smarter and faster, with products and services that work better and cost less, by improving the efficiency of DoD acquisition processes. **(01-DoD-2.4) FY 2001 Performance Measure 2.4.5:** Percentage of DoD Paperless Transactions. **(01-DoD-2.4.5)**

- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5) FY 2001 Performance Measure 2.5.3:** Qualitative Assessment of Reforming Information Technology Management. **(01-DoD-2.5.3)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- **Financial Management Functional Area. Objective:** Consolidate finance and accounting operations. **Goal:** Reduce and improve accounting systems. **(FM-2.2)**

- **Financial Management Functional Area. Objective:** Eliminate problem disbursements. **Goal:** Reduce problem disbursements by over 60 percent. **(FM-3.1)**

- **Financial Management Functional Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

GAO High-Risk Area. The GAO has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Use of Computer-Processed Data. To achieve the audit objectives, we relied on computer-processed data contained in PowerTrack®. Our review of data processed through the system showed an error rate that questions the validity of the data. However, when the data are reviewed in context with other available evidence, we believe that the opinions, conclusions, and recommendations in this report are valid.

Audit Type, Dates, and Standards. We performed this financial-related program audit from October 1999 through February 2001, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did our work in accordance with generally accepted Government auditing standards except that we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001, and we will undergo a new review.

Universe and Sample. Of 440 total transportation offices identified by U.S. Bank, we judgmentally sampled 12 transportation offices. At 11 of the 12 sites, we extracted and totaled, by site, for each month, the number of commercial freight shipments and electronic bills with the corresponding dollar amount, number of transportation control numbers and LOAs processed through PowerTrack®.

Use of Technical Assistance. The Quantitative Methods Division of the Office of Assistant Inspector General for Auditing assisted the audit by computing late payment charges incurred from January 2000 through September 2000. The charges were computed based on simple interest computations assuming an annual interest rate of 6.75 percent and 365 days in a year. Interest was calculated based on past due DoD PowerTrack® balances on intervals of 15 days, 45 days, 75 days, 105 days, 135 days, and 165 days during the period.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD; PricewaterhouseCoopers, Limited Liability Partnership; and U.S. Bank. Further details are available upon request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of management controls over the automated transportation payment process accomplished through the PowerTrack® service. Specifically, we reviewed transportation office management controls over approving carrier payments, certifying monthly invoices, and system security. We did not review management's self-evaluation applicable to those controls because the PowerTrack® service was not fully implemented or operational.

Adequacy of Management Controls. We identified material management control weaknesses within the automated transportation payment process and PowerTrack® service as defined by DoD Instruction 5010.40. The management controls over the automated transportation payment process and PowerTrack® service were not adequate to ensure DoD resources were safeguarded. For a detailed discussion on the management control weaknesses identified during our review, see finding B of the report. A copy of the report will be provided to the senior official responsible for management controls in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics.

Prior Coverage

General Accounting Office

GAO Report No. NSIAD-00-72 (OSD Case No. 2014), "Defense Management: Actions Needed to Sustain Reform Initiatives and Achieve Greater Results," July 25, 2000

GAO Report No. NSIAD-00-108 (OSD Case No. 2006), "Defense Management: Electronic Commerce Implementation Strategy Can Be Improved," July 18, 2000

GAO Report No. NSIAD-00-7 (OSD Case No. 1890), "Defense Transportation: Process Reengineering Could Be Enhanced by Performance Measures," December 20, 1999

GAO Testimony No. T-AMID/NSIAD-00-264, "Implication of Financial Management Issues," testimony of Jeffrey C. Steinhoff before the Task Force on Defense and International Relations, Committee on the Budget, House of Representatives, release date July 20, 2000

GAO, “Results of FY 1999 Financial Audit of the Department of Defense,” testimony of Jeffrey C. Steinhoff before a hearing of the Subcommittee on Government Management, Information, and Technology, release date May 9, 2000

Inspector General

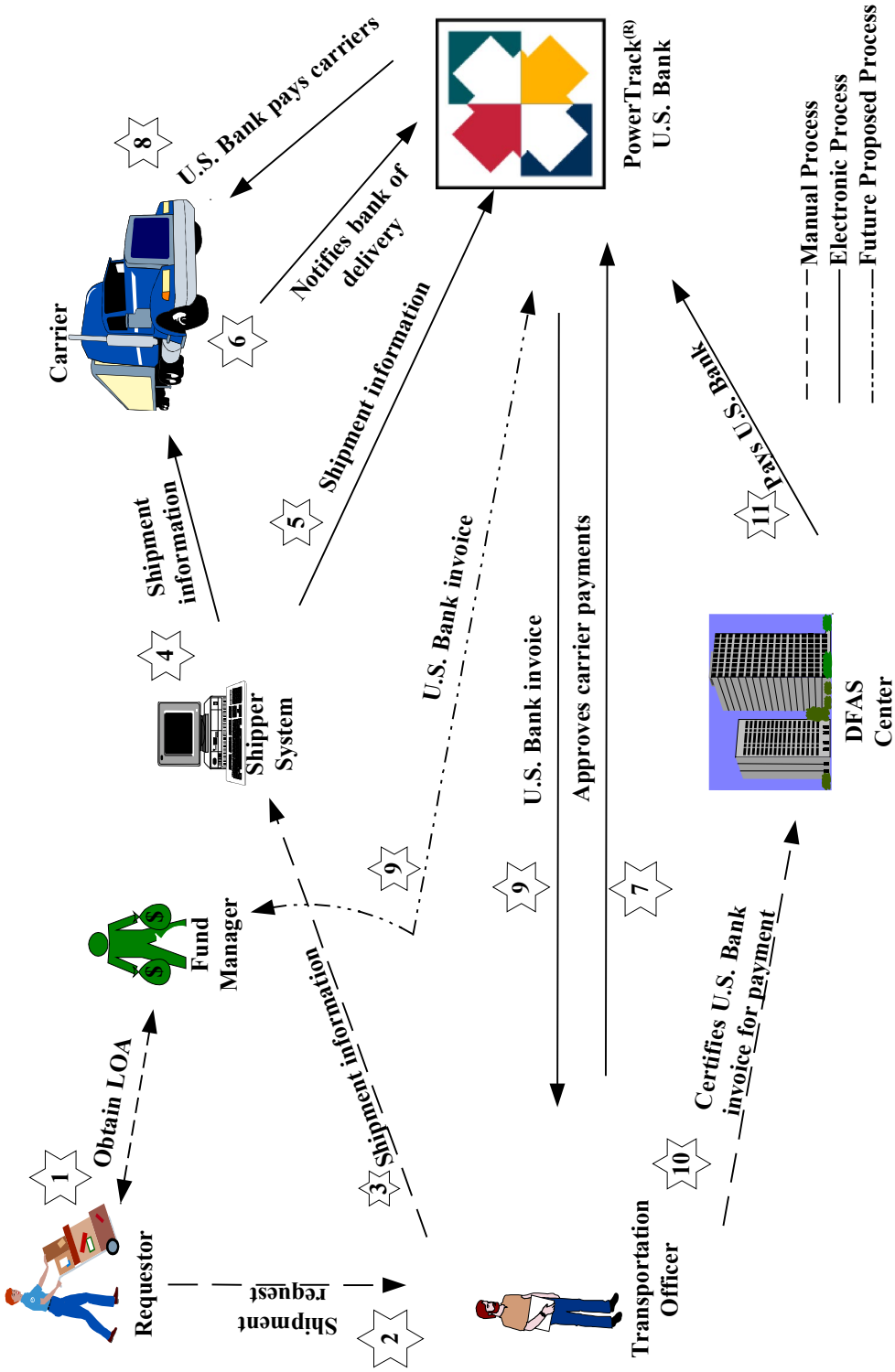
Inspector General, DoD, Report No. 96-044, “Freight Shipment Deliveries,” December 12, 1995

Inspector General, DoD, Report No. 98-016, “Controls over Government Bills of Lading,” November 3, 1998

Inspector General, “Department of Defense Financial Management,” testimony of Robert J. Lieberman before the Task Force on Defense and International Relations, House Committee on the Budget, release date July 20, 2000

Inspector General, “Results of FY 1999 Financial Audit of the Department of Defense,” testimony of Robert J. Lieberman - Assistant Inspector General for Auditing, Department of Defense, before a hearing of the Subcommittee on Government Management, Information, and Technology, release date May 9, 2000

Appendix B. Automated Transportation Payment Process



Implementation Steps

1. Requestor obtains the designated and funded LOA for the shipment from the Funds Manager.

2. Requestor provides shipment request to the Transportation Officer.

3. Shipment information is entered into the shipper systems (Defense Supply Services/Electronic Transportation Acquisition/Cargo Movement Operation Systems) and carriers are assigned.

4. Carrier picks up shipment and a hardcopy of the bill of lading.

5. Shipment information is released to PowerTrack® from the shipper systems.

6. The carrier delivers the shipment and enters notice of delivery into PowerTrack®. The invoice is then generated using one of the following invoicing methods.

   Self Invoicing. The invoice is generated using the Transportation Officer shipping data.

   Matching. Two invoices are generated. One invoice is generated using the Transportation Officer shipping data (self invoicing) and the other invoice is generated using the carriers shipping data (carrier invoicing). The invoices are matched electronically in PowerTrack®.

   Carrier Invoicing. The invoice is generated using the carrier's shipping data.

7. Carrier payments are approved. U.S. Bank defines the method of approval in PowerTrack® by carrier and the transportation office.

   Manual Approval. Transportation Officer manually reviews and approves carrier payment in PowerTrack® after the carrier posts the notice of delivery in PowerTrack®.

   Automatic Approval. PowerTrack® automatically approves carrier payment without the Transportation Officer review once the carrier posts the notice of delivery in PowerTrack®.

8. U.S. Bank pays carrier based on approved invoice.

9. Transportation office in coordination with the Funds Managers' review U.S. Bank monthly invoice to ensure it reflects appropriate LOAs and actual carrier charges.

10. Transportation Officer certifies U.S. Bank monthly invoice and submits it to DFAS for payment to U.S. Bank.

11. DFAS pays U.S. Bank.

Appendix C. Examples of Lines of Accounting

We randomly selected 15 LOAs for review. Nine LOAs were selected from the Transportation Officer's certified invoices and the other six LOAs were selected from the PowerTrack® system April 2000 invoices. Of the 15 LOAs reviewed, 9 LOAs were inaccurate.

Army Lines of Accounting. We reviewed five Army LOAs. Four of the LOAs were inaccurate. For example, one LOA identified the expenditure of Army Procurement funds belonging to the Army Tank Automotive Command that were used for the Heavy Tactical Vehicles Program. The LOA also identified that the funds were used for commercial land transportation. The program identification code for the Heavy Tactical Vehicles Program and the fiscal year were incorrectly stated. Transportation of Things object class for the Army Tank Automotive Command, Heavy Tactical Vehicles program makes up less than 0.78 percent of the total FY 2000 Heavy Tactical Vehicles Program budget.

Navy Lines of Accounting. We reviewed two different Navy LOAs that were extracted from the PowerTrack® database. According to the Navy, the LOAs were missing the accounting classification reference number. In addition, one LOA was missing the standard document number and the other was missing the fiscal year. The LOAs identified Operation and Maintenance Navy appropriation allocated to the Naval Transportation Support Center which centrally manages the Naval Supply System Command Operation and Maintenance funds for the Transportation of Things object class. Transportation represents roughly 44 percent of the total FY 2000 Naval Supply System Command total Operation and Maintenance budget.

Marine Corps Lines of Accounting. We reviewed one Marine Corps LOA, which was incorrect because the fiscal year and transportation account code did not agree. The fiscal year annotated in the LOA identified Headquarters, Marine Corps Operation and Maintenance funds for FY 1999 for the Transportation of Things object class. The transportation account code, MG50, was a FY 2000 code. Nevertheless, the Transportation Officer certified the LOA and submitted it to DFAS for payment. The Marine Corp funds for the Transportation of Things object class were centrally managed and represented less than one percent of Headquarters, Marine Corps Operation and Maintenance funds.

Air Force Lines of Accounting. We reviewed three Air Force LOAs and one was inaccurate. The Transportation Officer certified an invoice with an inaccurate LOA. The LOA misstated the Operation and Maintenance appropriation code. The LOA identified the Air Combat Command, 1st Fighter Wing, Traffic Management Squadron at Langley Air Force Base, FY 2000 Operation and Maintenance funds for the Transportation of Things object class. For FY 2000, Transportation of Things object class represents roughly .06 percent of the 1st Fighter Wing Operation and Maintenance budget.

Defense Logistics Agency Lines of Accounting. We reviewed four LOAs belonging to the Defense Logistics Agency working capital fund. According to the Defense Logistics Agency, only one of the LOAs contained an error. The object class was alphanumeric and not numeric. For FY 1999 and FY 2000 Transportation of Things object class represented roughly 0.0025 percent and 0.0036 percent, respectively, of Defense Logistics Agency working capital fund budget.

Appendix D. Criteria

Section 3512, Title 31, United States Code. The U.S. Code requires agencies to establish and maintain systems of accounting and internal controls to provide adequate financial information the agency needs for management purposes. The systems should also provide effective control over and accountability for assets for which the agency is responsible.

Federal Financial Management Improvement Act (FFMIA). The FFMIA requires agencies to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the Standard General Ledger at the transaction level. In addition, the FFMIA states that financial management systems include the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

Computer Security Act of 1987. The "Computer Security Act of 1987," Public Law 100-235, requires the establishment of security plans by agencies of Federal computer systems that contain sensitive information. The Act defines a "Federal computer system" as ". . . a computer system operated by a Federal agency or by a contractor of a Federal agency or other organization that processes information on behalf of the Federal Government to accomplish a Federal function . . .". The Act defines the term "sensitive information" to mean ". . . any information, the loss, misuse, or unauthorized access to or modification of which could adversely affect the ... conduct of Federal programs, or the privacy to which individuals are entitled under 5 U.S.C. 552a (the Privacy Act)." PowerTrack®, by virtue of its application within DoD, is a Federal computer system and contains sensitive data, and the requirements established in Public Law 100-235 are applicable.

Prompt Payment Act. OMB final rule on the Prompt Payment Act, 5 Code of Federal Regulations, Part 1315, and OMB Circular No. A-123, "Management Accountability and Control," which implements the Prompt Payment Act, requires agency heads to issue internal procedures for monitoring the causes of late payments and interest charges incurred. In addition, the agency head must ensure that effective internal control systems are established and maintained. Administrative activities required for payments to vendors under this part are subject to periodic quality control validation to be conducted no less frequently than once a year. Quality control processes will be used to confirm that controls are effective and that processes are efficient. Each agency head is responsible for establishing a quality control program in order to quantify payment performance, qualify corrective actions, aid cash management decision-making, and estimate payment performance if actual data are unavailable.

OMB Circular No. A-130. The OMB Circular No. A-130, "Management of Federal Information Resources," February 8, 1996, establishes policy for the management of Federal information resources and links automated information security programs and management control systems established in accordance with OMB Circular A-123. The established criteria require that the automated information systems safeguard information against tampering, loss, and destruction. Automated information systems are defined as an assembly of

computer hardware, software, firmware, or some combination of the three, configured to collect, create, communicate, compute, disseminate, process, store, or control data or information and includes application and operating system software. Because PowerTrack® is an integral part of the transportation payment process, the requirements established in OMB Circular A-130 are applicable.

OMB Circular No. A-127. OMB Circular No. A-127, "Financial Management Systems," revised June 10, 1999, outlines the financial management system requirements that are now statutorily required by the FFMIA. It prescribes policy and standards to follow in developing, operating, evaluating, and reporting on financial management systems. The financial management system requirements require compliance with security controls in accordance with the Computer Security Act of 1987 and OMB Circular A-130. It also requires a system of internal controls that ensures resources are used consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed, as prescribed in OMB Circular A-123. Financial management systems are defined as information systems that collect, process, maintain, or transmit financial events to support financial management. PowerTrack® collects, maintains, and transmits financial data and is integral to the financial management of transportation and therefore is considered a financial management system.

OMB Circular No. A-123. OMB Circular No. A-123, "Management Accountability and Control," June 21, 1995, incorporates provisions of the Federal Managers' Financial Integrity Act. OMB Circular A-123 provides guidance to Federal managers on improving accountability and effectiveness as they reengineer agency operations and programs. It requires that management controls be established to ensure that laws and regulations are followed; intended results are achieved; programs and resources are protected from waste, fraud and mismanagement; and information is reliable, timely, and available for decision making.

GAO Publication GAO/AIMD-00-21.3.1. GAO Publication GAO/AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1999, establishes the overall framework for controls in the Federal Government. The five standards for internal controls are Control Environment, Risk Assessment, Control Activities, Information and Communications, and Monitoring. The standards require the minimum level of quality acceptable for internal controls in the Government and provide the basis against which all are to be evaluated and applied to all aspects of an agency's operations.

DoD Directive 5200.28. DoD Directive 5200.28, "Security Requirements for Automated Information Systems," March 21, 1988, applies to all automated information systems including application system software. DoD Directive 5200.28 incorporates requirements of OMB Circular A-130. DoD Directive 5200.28 states that each Component head shall assign a Designated Approving Authority that is responsible for the accreditation of each automated information system.

- Accreditation is the formal declaration of the automated information system or application to operate. The accreditation is based on a certification process.

- Certification is a comprehensive evaluation of the technical and non-technical security features of an information technology system and other safeguards made in support of the accreditation process.

DoD Directive 5200.28 also outlines the minimum system security necessary for automated information systems. Each automated information system should safeguard information against tampering, loss, and destruction. Because PowerTrack® service is part of the DoD automated transportation payment process, the automated information systems requirements established in DoD Directive 5200.28 are applicable.

DoD Instruction 5200.40. DoD Instruction 5200.40, "Defense Information Technology Certification and Accreditation Process," December 30, 1997, implements the system security requirements identified in Public Law 100-235, "Computer Security Act of 1987," OMB Circular A-130, and DoD Directive 5200.28. DoD Instruction 5200.40 prescribes procedures for the certification and accreditation process with an emphasis on the system life-cycle management approach. In addition, it creates a process for the Certification and Accreditation of DoD systems. DoD Instruction 5200.40 is applicable to the DoD Components and their contractors, including U.S. Bank, and any system incorporated into a DoD infrastructure, including PowerTrack®. It applies to the acquisition, operation, and sustainment of any DoD system that collects, stores, transmits, or processes information including PowerTrack®.

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
  Assistant Deputy Under Secretary of Defense (Transportation Policy)
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

Department of the Army

Auditor General, Department of the Army
Commander, Army Materiel Command
Commander, Blue Grass Army Depot
Commander, Fort Knox

Department of the Navy

Commandant, Marine Corps
Naval Inspector General
Auditor General, Department of the Navy
Commander, Naval Air Systems Command
  Commanding Officer, Naval Air Station Oceana
Commander, Naval Supply Systems Command
  Commanding Officer, Fleet and Industrial Supply Center Norfolk
Commander, Space and Naval Warfare Systems Command

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force
Commander, Air Force Materiel Command
Commander, Langley Air Force Base
Commander, Wright-Patterson Air Force Base

Unified Command

Commander in Chief, U.S. Transportation Command

Other Defense Organizations

Director, Defense Contract Management Agency
- Defense Contract Management District East
  - Defense Contract Management Command Dayton
- Defense Contract Management District West
  - Defense Contract Management Command San Diego

Director, Defense Finance and Accounting Service
- Cleveland
  - Norfolk
- Columbus
- Denver
  - Dayton
- Indianapolis
- Kansas City

Director, Defense Information Security Agency
Director, Defense Logistics Agency
- Defense Distribution Center
  - Defense Depot Center Susquehanna
  - Defense Distribution Depot Center Norfolk
  - Defense Distribution Depot Center San Diego

Non-Defense Federal Organizations

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Under Secretary of Defense (Comptroller) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

APR 12 2001

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Office of the Inspector General, Department of Defense (OIG,DoD) Draft Audit Report, "Automated Transportation Payments," (Project No. D1999FI-0080.000) (Formerly Project No. 9FI-2022)

This is the Office of the Under Secretary of Defense (Comptroller) response to the subject draft audit report. Detailed comments are attached and include comments from the Defense Finance and Accounting Service.

We appreciate the opportunity to comment on the draft report. My staff point of contact on this matter is Mr. Ron Massengill. He may be reached by e-mail: massengr@osd.pentagon.mil or by telephone at (703) 602-0125.

Nelson Toye
Deputy Chief Financial Officer

Attachment

Office of the Under Secretary of Defense (Comptroller)
Response to Proposed Office of the Inspector General (OIG), Department of Defense (DoD) Audit Report
Automated Transportation Payments
Project No. D1999FI-0080.000 (formerly Project No. 9FI-2022), Dated February 7, 2001

OIG, DoD Recommendation A. Require the Defense Components to establish and fund open transportation allotments for budget and accounting purposes, and limit transportation lines of accounting to the Defense Component level to avoid late payment charges and problem disbursements and support the DoD prevalidation initiative.

DoD Response: Nonconcur. The use of centrally managed open allotments for funds management is problematic. Open allotments are prone to misuse. Since the many managers who would use the open allotment would not be responsible for programming and budgeting the funds needed for transportation, there would be little incentive for those managers to review critically or manage closely the obligation or expenditure of funds charged to the open allotment. Additionally, because centrally managed allotments present a greater risk of Antideficiency Act violations, Volume 14 of the DoD Financial Management Regulation requires that they be used only when other methods of funds control are impractical and it can be clearly demonstrated that a centrally managed allotment is the only practical administrative procedure. The use of a centrally managed allotment for the purposes of simplifying or reengineering business practices does not meet those criteria. Further, the size of the recommended open allotments and the high volume of low dollar value transactions could require intensive management efforts and result in significant reconciliation efforts. Transportation costs are better managed when funded and managed by those organizations that incur the costs than when funded by an organization other than that which incurs the costs.

In May 2000, the Under Secretary of Defense (Comptroller) (USD(C)) required the DoD Components to establish alternate lines of accounting (LOAs). Because LOAs are used as part of the Components' funds management processes and are used to convey management information, it was not unreasonable to allow the Components time to change those processes and incorporate management information available in PowerTrack® into revised processes before a significant reduction in the number of LOAs could be expected. The large number of LOAs currently maintained by the Components result from their assessment of how best to meet fiduciary responsibilities while supporting broader Component goals and responsibilities.

Requiring the Components to establish and fund transportation open allotments and limiting transportation lines of accounting to the Component level in the name of efficiency or simplification places financial processes in the role of driving, rather than supporting, Component goals. Suggest that the recommendation be revised to encourage the Components to reduce further the number of LOAs with the recognition that a reasonable amount of time must be allowed to implement necessary process changes

incorporating the management information available in PowerTrack® before the number of LOAs can be significantly reduced.

OIG, DoD Recommendation B.2.a. Retain Certifying Officer (CO) responsibilities at the Defense Finance and Accounting Service for PowerTrack® payments.

DoD Response: Nonconcur. The recommendation, and the belief upon which it is based, that Transportation Officers (TOs) do not have the expertise to perform this function and that, therefore, certification responsibilities more appropriately belong to the financial community, is not in line with the direction the Department is taking to hold individuals accountable for the work that they perform. Sound financial management and internal control practices dictate that certifying officers be independent and organizationally separate from disbursing officers, whenever practicable. The TO should utilize the PowerTrack® database as well as work with the appropriate funds manager to ensure that the invoice contains the necessary substantiation and documentation for lawful and proper payment. If the DFAS disbursing office were the certifying office, rather than the TO, the DFAS certifying officer would have to rely on the TO to provide the information required in order for the DFAS certifying officer to perform the certification function. The DFAS disbursing officer would have no other basis, therefore, on which to base validity of the payment.

The DFAS disbursing offices cannot make meaningful examinations of PowerTrack® billings. Much of the documentation exists only in electronic form. In the transportation process utilizing PowerTrack®, the requestor provides information to the TO that includes what is to be shipped, current location, destination and the funds to be used to cover the obligation. Based on the information provided by the requestor, the TO supplies the remainder of the information required for shipment, selects the mode of transport and an appropriate carrier and notifies the carrier of the requirement. The carrier then performs as required and notifies the TO via PowerTrack®. The TO then authorizes payment from the U. S. Bank to the carrier either by specific approval or automatically if the transaction meets certain criteria. The bank provides a billing statement each month with charges for each payment made. The TO is responsible for assuring that the bank pays only authorized carriers in the correct amounts. Since the TO is responsible for assuring that the transportation services requested are for valid purposes, only the TO can perform a meaningful certification of the bank's billing. The DFAS disbursing office would only be able to verify that the charges by the bank are supported in PowerTrack® for the same amounts.

The PowerTrack® system is designed with a set of controls and tools for the TO to apply to assure that transportation purchased is proper and properly charged. The TO should assure that the controls properly are applied and should be held accountable as the certifying officer. If system controls are properly utilized, only authorized transactions should be entered into PowerTrack®, carriers should be paid only for authorized shipments, and the bank should bill only for proper payments made to vendors. Review of the PowerTrack® records against the bank's billing statement by DFAS disbursement offices would not add value. Giving the TO the responsibility to certify the payment

along with accountability and pecuniary liability provides the incentive to ensure that the controls and procedures are properly applied, that only valid transactions are entered into PowerTrack®, and that payments to the carriers meet the appropriate criteria.

The TOs must understand and have visibility over financial data. In order to obligate the government, the TO should be able to make a good faith reliance on the controls in place to assure that the information provided to support a given shipment, including the validity and availability of funds, is valid. As noted in the draft report, the Military Departments and Defense Agencies provided comments to the Certification Officer Legislation Training compact disk developed by the DFAS and, once the comments are considered, the training disk could be used as a training tool for the certifying officers. The DFAS also is working with its customer financial managers to improve the funds management processes for transportation obligations. This should give those TOs appointed as Certifying Officers the confidence to rely on the process to provide valid information. Further, to facilitate the TOs' ability to enforce the needed discipline, the DFAS plans to distribute an automated fund cite editing tool. This editing tool should assist in carrying out the fund cite validity and provide part of the basis for the payment certification. As these processes are improved and the automated tools become available, the discipline should be increased and the total workload should be reduced. The result should be accurate billing statements and meaningful certification.

OIG, DoD Recommendation B.2.b. Revise the DoD Financial Management Regulation ("DoDFMR") to reflect changes in the Defense Transportation Regulation as they pertain to Fund Managers' use of PowerTrack®.

DoD Response: Changes pertaining to fund managers' use of PowerTrack® that were made to the Defense Transportation Regulation will be reviewed and, if determined appropriate, applicable guidance will be incorporated into the "DoDFMR."

Under Secretary of Defense for Acquisition, Technology, and Logistics Comments

Final Report Reference

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

20 APR 2001

MEMORANDUM FOR THE ACTING INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Office of the Inspector General, Department of Defense (OIG, DoD) Draft Audit Report, "Automated Transportation Payments," (Project No. D1999FI-0080.000) (Formerly Project No. 9FI-2022)

I appreciated the opportunity to meet with you on April 16, 2001, concerning the February 7, 2001, Draft Audit Report, "Automated Transportation Payments." As we discussed, we have a number of serious concerns with the report's recommendations as well as with the overall tone of the report. The implementation of U.S. Bank's PowerTrack third party payment system to pay transportation bills has resulted in the electronic payment of $1 billion dollars in transportation bills annually to over 380 carriers. These payments are made 85% of the time within 3 days and 95% of the time in 10 days, compared to a paper and labor-intensive process that paid carriers in 30-90 days. It has also eliminated 97% of our cumbersome, unique Government documentation and replaced it with commercial documentation. However, the report states that the Department is perpetuating "less efficient business practices." There is no data to support the report's assertion that Transportation Offices are incurring an additional $22.2 million dollars in additional processing costs based on the PowerTrack business process. This assumed a total transfer of workload including business process associated with payment verification and certification from DFAS to Transportation Offices which did not occur. Further, the report fails to identify savings associated with the use of PowerTrack. Our metrics demonstrate that the Military Services are saving $10.9 million in DFAS transportation bill processing costs through the use of PowerTrack.

The report recommendations B.1.a, B.1.b, and B.1.c regarding Commercial Off the Shelf (COTS) assessment procedures should be revised. The recommendations propose a bureaucratic process for assessing the security implications of COTS applications that will add cost but not necessarily enhance security. We agree that the Department needs an effective COTS assessment policy to ensure the security of DoD systems and would strongly support such a recommendation. We also nonconcur with the report's recommendation that DFAS certify invoices rather than Transportation Officers. Transportation Officers are better able to determine whether the carrier bills are correct for the services requested. We are actively working with the Under Secretary of Defense (Comptroller), DFAS, and the Military Services and Agencies to further develop procedures to improve funds control, including validating Lines of Accounting earlier in the shipment process.

Revised and renumbered as Recommendation B.1.a.

20 APR 2001

This is a coordinated response between my office, the United States Transportation Command (USTRANSCOM), and the Defense Finance and Accounting Service Headquarters. Detailed comments are attached. My staff point of contact is Ms. Lisa Roberts at e-mail: lisa.roberts@osd.mil, or telephone at (703) 601-4461, extension 151.

Mary Lou McHugh
Assistant Deputy Under Secretary
(Transportation Policy)

Attachment

Copy Furnished:
USTRANSCOM
DFAS-HQ

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Final Report Reference

RESPONSE TO
DRAFT OFFICE OF THE INSPECTOR GENERAL (OIG), DEPARTMENT OF DEFENSE (DoD)
AUDIT REPORT
AUTOMATED TRANSPORTATION PAYMENTS
PROJECT NO. D1999FI-0080.000, DATED FEBRUARY 7, 2001

OIG, DoD Recommendations B.1.a, B.1.b, and B.1.c. Appoint an executive agent for each automated acquisition, technology, and logistic system operating within DoD including PowerTrack®, to ensure that risk associated with use are understood and mitigation of risks are planned. Appoint a Designated Approving Authority for PowerTrack®, to act in accordance with DoD policy. Prepare a formal Memorandum of Agreement between the executive agent and Designated Approving Authority for PowerTrack® and define responsibilities for: 1) accepting the overall management controls associated with the automated transportation payment process, 2) accepting security risk associated with using PowerTrack®.

Revised and renumbered as Recommendation B.1.a.

DoD Response: Nonconcur. PowerTrack® is an example of a Commercial Off The Shelf (COTS) web-based application provided to DoD and the private sector. DoD neither owns nor has software rights to this application. The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) (C3I) has advised our office in a memorandum dated August 30, 2000, that a DoD Information Technology Security Certification and Accreditation Process (DITSCAP) is not required. Because a DITSCAP is not required, a Designated Approving Authority is not applicable to commercial applications. There is currently no approved DoD policy to follow regarding assessments of commercial applications. We will comply with approved policy concerning COTS Executive Agency and Designated Approving Authority requirements. These recommendations regarding COTS assessment procedures should be revised. The recommendations propose a bureaucratic process for assessing the security implications of COTS applications that will add cost but not necessarily enhance security. We agree that the Department needs an effective COTS assessment policy to ensure the security of DoD systems and would strongly support such a recommendation.

OIG, DoD Recommendation B.1.d. Contract with U.S. Bank to phase out the use of ActiveX or use ActiveX in accordance with DoD policy.

Renumbered as Recommendation B.1.b.

DoD Response: Concur. We will use ActiveX in accordance with DoD policy. The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) released a memorandum dated April 12, 2001 to the military Services/Agencies that confirms that the use of Active X by the PowerTrack® application in MRM #15 complies with the DoD requirements for use of mobile code.

OIG, DoD Recommendation B.4.a. Ensure that each transportation office assigns an individual who is not involved in payment approving and certifying processes to administer and control PowerTrack® profiles.

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DoD Response: Partially Agree. Agree that this action is needed; however, Services/Agencies are responsible for base-level transportation offices or systems vice USTRANSCOM.

OIG, DoD Recommendation B.4.b. Implement Public Key Infrastructure access based on Federal Information Protection Standard 228, level 2 for all PowerTrack® transactions, access, and data transmission.

DoD Response: Partially Agree. Agree this recommendation should be implemented; however, Services/agencies are responsible for implementing DoD-wide vice USTRANSCOM. It should be noted that USTRANSCOM has begun implementation of PKI internally and has provided limited users this access for testing. All new application development within USTRANSCOM and the Transportation Component Commands are required to be PKI enabled. The Automated Commercial Payment and Accounting Process is an MRM #15 enhancement that includes implementation of PKI.

OIG, DoD Recommendation B.4.c. Revise the Defense Transportation Regulation to reflect the current automated transportation freight process.

DoD Response: Concur. Action is complete. Appendix bb to the DTR contains the business processes for all modes of shipments currently implemented under Management Reform Memorandum (MRM) #15. We will continue to update these procedures as we expand to other areas.

OIG, DoD Recommendation B.4.d. Ensure that transportation officers are trained and fully understand the transportation payment process and functionality of PowerTrack®.

DoD Response: Partially Agree. While we agree that training is an important issue, we nonconcur that USTRANSCOM has action. Training of transportation officers is a Service/agency responsibility. We note that initial shipper training for DoD was developed by the MRM #15 Project Management Office, approved by the Services/agencies, and completed in Aug 00.

OIG, DoD Recommendation B.4.e. Develop and implement standard operating procedures to establish and monitor PowerTrack® access, user privileges and carrier profiles.

DoD Response: Partially Agree. Agree that this recommendation has merit; however, we have been advised by Service/agency representation that they have elected to keep user account management at their level.

Other Comments:

Executive Summary. Nonconcur with the statement that "DoD was unnecessarily incurring approximately $22.2 million in additional processing costs…" There is no data to support the report's assertion that Transportation Offices are incurring an additional $22.2 million dollars in additional processing costs based on the PowerTrack business process. The report fails to identify savings associated with the use of PowerTrack®. Our metrics demonstrate that the

Military Services are saving $10.9 million in DFAS transportation bill processing costs through the use of PowerTrack. In 1999, the Defense Finance and Accounting Service (DFAS) charged the military Services approximately $12,500,000 for processing Government Bills of Lading (GBLs). Today DFAS charges the military Services $1,563,760 for that same business, a 88% reduction resulting in $10.9 million in savings for the military Services. The $1,563,760 is based on 88,000 aggregated transaction payments (from January 2000 to February 2001) multiplied by the DFAS billing rate of $17.77. DoDIG does not recognize the savings associated with aggregated transaction payments. Instead, DoDIG applies the $22.2 million to Transportation Officer processing time. This is incorrect because the DFAS billing rates include cost of accounting, disbursing, and DFAS overhead - not Transportation Officer processing time. With PowerTrack, the military Services are benefiting from lower DFAS charges because DFAS is billing Services based on aggregated transaction payments rather than individual transaction payments. It is not appropriate to calculate Transportation Officer processing time based on DFAS billing rates. While Transportation Offices are now certifying monthly invoices, this has not resulted in any additional processing costs or additional manpower for Transportation Offices. The cost of performing these functions is more than offset by savings/efficiencies in other areas and through improved internal controls. Cost savings and efficiencies that the Transportation Office achieves in other areas include:

- Transportation Office processes are automated and allow him/her to conduct all business on-line vice in a very manual, paper-intensive environment
- Transportation Office has access to real time management information to monitor carrier performance and make immediate, cost saving, traffic management decisions
- Government forms and redundant processes are eliminated. Bills of lading correction notices and research is no longer required. Overcharges are identified immediately
- Internal controls are improved because the Transportation Office is in the best position to know the correct price and whether services were properly provided vice a DFAS finance clerk

The Automated Commercial Payment and Accounting Process is underway to further streamline payments to U.S. Bank and accounting processes associated with these payments. This initiative introduces electronic data interchange to electronically generate obligations and invoices to DFAS. It also introduces segmented LOAs that will be electronically processed by DFAS. This will eliminate the manual DFAS accounting processes used today and decrease the DFAS billing rate to approximately $8.00 per aggregated transaction payment. We are actively working with the Under Secretary of Defense (Comptroller), DFAS, and the Military Services and Agencies to further develop procedures to improve funds control, including validating Lines of Accounting earlier in the shipment process. An Under Secretary of Defense (Comptroller) led "tiger team" is working to ensure that a process is in place for segmented, funded LOAs to enter shipper systems and PowerTrack.

Page 3. Update metrics. As of March 2001, we are processing through PowerTrack $3.5M per day and $65M per month in DoD shipments from 538 sites. We are paying approximately 385 carriers in 3 business days 85% of the time by $ volume. We have reduced the monthly number of GBLs created by 97% since February 1999 and have reduced the DFAS freight transportation payment volume by 95%.

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Page 6. Include Marine Corps information. Effective October 1, 1999, the Marine Corps was able to reduce its number of LOAs used to fund freight movements from approximately 800 LOAs to 30 LOAs.

Page 7, Ensure Accurate Billing Statements. Change first sentence "individual invoices" to "individual shipments."

Page 7 & 8

Page 8. Description of the certification process, top of page. The detailed billing is organized by summary Lines of Accounting (LOA), not chronologically by carrier paid date. A portion of the summary statement is a breakout of Bills of Lading. The Funds Manager Reports supports the summary statement.

Page 8, Certification of Other DoD Components' Funds. When alternate LOAs are used, there is no additional workload required of the Transportation Office. Reconciliation of proper LOA occurs between the DFAS and the appropriate funds manager. The proposed solution is documented in the Automated Commercial Payment and Accounting Process Concept of Operations. We are coordinating with DFAS and moving forward to implement this solution of providing front-end edits in the shipper systems.

Page 9, Processing Cost. While we recognize that DoD pays interest to U.S. Bank under MRM #15, the amount of interest paid from January 2000 to February 2001 was $600,000 for all modes for $507,000,000 in transportation costs (0.1%). This is a considerable decrease compared to the amount of interest paid prior to PowerTrack® implementation. For example, in previous years, Sealift alone had interest payments between $400,000 and $600,000 for $300,000,000 in transportation costs (0.2%). The current DoD file turn is approximately 43 days. File turn is defined as the time from U.S. Bank payment to the carrier to the time U.S. Bank is reimbursed by DoD. As we implement electronic monthly invoice certification and processes, our file turn will decrease resulting in quicker payments to U.S. Bank and the opportunity for rebates.

Page 10, Use of Alternate LOA. The DoD Component Transportation Office is not responsible for liquidating the alternate LOA. This responsibility resides with the Funds Manager. Also, inaccurate LOAs must be corrected within 3 days, not 2 days, before DFAS is to pay the invoice citing the respective DoD Component alternate LOA.

Page 12, Recommendations. We highly support the effort to limit the number of Service Transportation LOAs. Fewer LOAs would speed the pre-validation effort, decrease problem disbursements, and expedite payment to U.S. Bank.

Page 14

Page 13, Controls Over Automated Transportation Payments. Disagree that reengineering efforts contain high risks of exposing sensitive financial data to unauthorized parties and risk noncompliance with public laws and regulations. PowerTrack® is a system designed consistent with financial best practices and integrated controls. It uses the same infrastructure and payment generator that it uses for processing millions of commercial credit transactions valued at billions of dollars. What is not recognized are the many inherent risks of the previous business processes, which had far greater weaknesses and risks.

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Page 13, Effectiveness of Controls. Report states, "…DoD was processing its transportation freight payments through PowerTrack® without adequate system and management control measures." It is not clear what benefits would accrue from imposition of added system and management controls, or more precisely what inadequacies exist now that would be remedied. PowerTrack® is a settlement system offered by an accredited financial institution, and as such is subject to the stringent annual audit requirements established by the United States Office of the Comptroller of the Currency. Additionally, numerous commercial customers already depend upon U.S. Bank and PowerTrack® to provide reliable data specifically for accurate financial reporting.

Page 14

Page 15, Windows 95 and Windows 98 platforms. The concerns discussed do not relate to PowerTrack®, as PowerTrack® does not depend on the security structure of either Windows 95 or Windows 98. The PowerTrack® application itself establishes the identity of each user requesting access to PowerTrack® via the user ID and password entered during each logon session. The PowerTrack® application uses the Secure Sockets Layer (SSL) capability of Internet Explorer to encrypt all communications, including transmission of the user ID and password, between the client machine and the PowerTrack® servers under 128-bit encryption technology. Therefore, any security issues with Windows 95 or Windows 98 are not relevant to PowerTrack® functionality.

Page 16

Page 15, User Identifications and Passwords. This concern identifies a situation that was fixed nearly nine months ago. It occurred under certain highly unusual error conditions in an earlier version of PowerTrack®. Once the problem was identified, U.S. Bank modified the technology used to manage the logon process to ensure that the history mechanism of Internet Explorer was never given access to the data. The new logon process has been in production since July 12, 2000.

Page 16

Page 16, User Profiles. Only systems administrators may change profiles in order to restrict access to PowerTrack® user profiles. It is important to note that only U.S. Bank personnel can set up new carriers. These set ups are based on contracts between U.S. Bank and the carrier for PowerTrack® services. Each setup goes through U.S. Bank's standard credit screening process to ensure that the company exists, that the individual signing the contract is empowered to enter into contracts on behalf of his/her company, and that the depository account is owned by the company. Therefore, collusion requires a willing DOD participant with appropriate PowerTrack® rights and a willing carrier employee with both appropriate PowerTrack® rights and unsupervised access to the carrier's operating bank account.

Page 17, Access Controls. As a commercial settlement system, PowerTrack® is very concerned that confidential information be kept confidential. PowerTrack® has been built around a sophisticated access control system that ensures any individual accessing data in PowerTrack® can only see information that PowerTrack® deems is relevant to the requesting individual. This determination is made based on the organizational node to which the user ID is attached. To preclude compromise of this information, PowerTrack® encrypts all communications between the remote client machine and the central PowerTrack® servers using 128-bit SSL technology. All data is maintained behind two layers of Sidewinder firewalls. Additionally, whenever an individual performs any action in PowerTrack® space, PowerTrack® automatically captures the UserId and system date and time of that action and associates this information with all affected records. Finally, PowerTrack®

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periodically engages the services of third-party organizations – such as the Ernst & Young eCommerce practice – to review its security technology.

Page 19

Page 18, Operating Guidance. The Defense Transportation Regulation is not silent regarding transactions processed through PowerTrack®. In fact, this regulation contains the business processes for all modes of shipments currently implemented under MRM #15. USTRANSCOM continues to update the DTR as MRM #15 is expanded in other areas.

Page 20

Page 19, Funds Manager Training. Effective March, 2001, Funds Managers now have access to a web-based training application as well as a CD-ROM that trains funds managers on the MRM #15 process including the Funds Manager Review Report. The tool is available on the MRM #15 web-site for all funds managers to access. The tool was developed in coordination with the Services/Agencies funds manager stakeholders.

Page 20, Contractor Access. In response to the statement, "U.S. Bank was unable to identify payments by approving official," this is incorrect. One of PowerTrack's® fundamental design requirements, and existing operating parameters, is that the UserId of any individual approving a transaction for payment through PowerTrack® is captured and visible through the Financial Status history attached to each and every transaction.

Page 22

Page 21, Certifying Officer Responsibilities. The current business rules state that Certifying Officers are suppose to certify the monthly billing statement within 5 business days, not 2 days. Note that while many Certifying Officers are Transportation Officers, this is not always the case. Some agencies designate Certifying Officers that are not Transportation Officers. Additionally, Transportation Offices are typically organized where the Transportation Officer has clerks working underneath him/her who approve PowerTrack® transactions for payment. Then, the Transportation Officer certifies the invoice. This typical organizational structure segregates key duties in authorizing, processing, recording, and reviewing transactions.

Page 26

Page 24, Recommendation B.2.a. We support the position that the TO is in a better informed situation than a DFAS finance clerk to ensure service was properly provided and charges correct before certifying and paying a transportation invoice. Through use of funds manager reports and disciplined data entry, TO's can have the same visibility as DFAS in determining whether the proper LOA is used.

Page 26

Page 24, Recommendation B.2.b. We support an update to the DoD Financial Management Regulation to reflect Funds Manager responsibilities relating to use of PowerTrack®. We also recommend that the Certifying Officer Business rules be updated and published in the DoD Financial Management Regulation.

Page 29

Page 25, Recommendation B.5.b. Use of Active X by the PowerTrack® application in MRM#15 complies with the DoD requirements for use of mobile code. Disabling the download and execution of mobile code on PowerTrack® is not required. The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) recently released a memorandum to the military Services/Agencies that confirms that the use of Active X by the PowerTrack® application in MRM #15 complies with the DoD requirements for use of mobile code.

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Page 31, Implementation Steps. Change number 9 to read, "Funds Managers review the Funds Manager Review Report to ensure it reflects appropriate Lines of Accounting." This step in the diagram is erroneously depicted as a future proposed process. Replace "U.S. Bank Invoice" with "Funds Manager Review Report."

Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) Comments

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
6000 DEFENSE PENTAGON
WASHINGTON, DC 20301-6000

April 9, 2001

COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE

MEMORANDUM FOR INSPECTOR GENERAL, DoD
(Attn: DIRECTOR, FINANCE AND ACCOUNTING)

SUBJECT: Draft DoD IG Report on Automated Transportation Payments (Project No. D1999FI-0080 formerly No. 9FI-2022)

Attached is our response to the recommendations in Section B3 of your draft report on the Automated Transportation Payment Process pertaining to "...commercial-off-the-shelf products and electronic commerce applications used but not owned by the government."

Should you require further discussion or clarification of this memorandum, please feel free to contact Mr. Jim Mulder at 703-604-1588.

for Margaret E. Myers
Acting Deputy Assistant Secretary of Defense
(Deputy CIO)

Enclosure

ASD (C3I) Response to Draft DoD IG Report on Automated Transportation Payments (Project No. D1999FI-0080 formerly No. 9FI-2022)

The new 8500-series Information Assurance (IA) policy issuances will provide additional guidance related to use of commercial-off-the-shelf (COTS) products acquired and used by the government. Electronic commerce applications used but not owned by the government is a separate issue from COTS products and we are addressing those concerns as well. Any guidance provided must recognize the limitations of DoD to dictate measures to be implemented by activities not directly controlled by the Department and must also provide solutions that can be implemented at reasonable cost.

Recommendations:

B.3.a. Reply: DoD guidance already exists describing management responsibilities, how to apply to the appropriate level of systems security, and how risks are assessed. Current guidance is provided in DoD Directive 5200.28, "Security Requirements for Automated Information Systems (AISs), March 21, 1988 and Global Information Grid Guidance and Policy Memorandum 6-8510 "Department of Defense Global Information Grid Information Assurance," dated June 16, 2000. Appropriate guidance from those issuances, plus additional policy and procedural guidance, will be incorporated in new 8500-series IA policy issuances that are currently under development. The 7 Nov 2000 Mobile Code Policy also provided guidance in this area.

B.3.b. Reply: We are working with USD(A,T&L) Director of Defense Procurement to determine if additional language is required. No specific date for completion is available.

B.3.c. Reply: DoD Instruction 5200.40, "Defense Information Technology Security Certification and Accreditation Process (DITSCAP)," December 30, 1997, is being revised by a working group. The new issuance will be an 8530-series document and will more directly address COTS products and situations where only services, such as PowerTrack, are procured.

B.3.d. Reply: DAA responsibilities are defined in DoDD 5200.28. As stated in B.3.a. and B.3. c. above, additional clarity will be provided where required in the new 8500 series issuances.

B.3.e. Reply: DoD already validates, to the extent we can, under DITSCAP. Base level System Security Accreditation Agreements (SSAA) must be updated at the local level. This issue will be addressed in the 8500-series guidance. ASD C3I memo of 30 Mar 2000 clarified that PowerTrack complies with the Mobile Code Policy of 7 Nov 2000.

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF INFORMATION OFFICER
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

13 April 2001

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR GENERAL DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE

Subj: DRAFT AUDIT REPORT "AUTOMATED TRANSPORTATION PAYMENTS" (Project No. D1999FI-0080.000)

Ref: (a) DODIG Memo of 7 Feb 01

I am responding to the request for comments on the report forwarded by reference (a). Recommendation B.5 asked that the Department of the Navy Chief Information Officer "a. Ensure that the System Security Authorization Agreement associated with each transportation office includes the PowerTrack® application," and "b. Disable the downloading and execution of all mobile code on all local systems unless the mobile code is compliant with DoD policy."

The Department of the Navy concurs with the recommendations. The Department of the Navy's comments are as follows. The Department of the Navy will ensure that the System Security Authorization Agreement associated with each transportation office includes the PowerTrack® application. Current DoD guidance on the use of Mobile Code Technologies does not prohibit the execution of specific technologies, but rather requires the documented notification to DoD Component Heads if use would violate proposed policy. DON CIO continues to support the ongoing development of Mobile Code Technology Policy through regular participation in DoD Working Groups and the CIO Executive Council and will continue to ensure documentation and reporting of instances where use of Mobile Code might impact future policy decisions.

We appreciate the opportunity to comment on the draft report. My point of contact is Captain Cray Coppins, USNR, (703) 602-6799.

D. M. Wennergren
Deputy Chief Information Officer for
*e*Business & Security

Copy to:
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NAVAUDSVC
ASN(FM&C) (FMB-31)
COMNAVSUPSYSCOM
USMC C4

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

5 Apr 2001

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: (U) DoDIG Draft Report, Automated Transportation Payments, (Project Code D1999FI-0080.000)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

"The Air Force concurs with comment #B.5.b . The AF-CIO concurred with the 7 Nov 2000 DoD Mobile Code Policy Guidance signed by DoD-CIO. AF-CIO is preparing to send a message to all relevant parties in the Air Force announcing immediate implementation of the 7 Nov 00 Mobile Code Policy throughout the Air Force and procedures to request a waiver of the Mobile Code Policy."

There no immediate cost savings associated with comment.

SUSAN T. PARDO, Lt Col, USAF
Chief, Information Assurance Division
DCS/Communications and Information

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The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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