




AUG 15 2014

MEMORANDUM FOR: CHRISTOPHER P. LU
Deputy Secretary

FROM: 
SCOTT S. DAHL
Inspector General

SUBJECT: The Department Has Made Significant Progress in
Developing Financial Management Continuity Plans, But
Critical Parts Need to Be Finalized
Report Number: 22-14-007-01-001

The purpose of this memorandum is to notify you regarding significant concerns we have observed in the current service continuity plans being developed by the Department in the event that its current financial management system, New Core Financial Management System (NCFMS), becomes unavailable for any reason. As you are aware, the Department does not receive contractor-provided copies of recent NCFMS application and data backups. Further, the primary and alternate NCFMS processing sites, as well as Department financial databases, are owned and operated by the same contractor.

The concerns discussed in this memorandum are based on fieldwork conducted from June 26, 2014, through July 15, 2014, including the inspection of the June 30, 2014, version of the Manual Financial Transaction Playbook (Playbook). During fieldwork we made verbal recommendations, and management has indicated that certain recommendations had subsequently been addressed or are in the process of being addressed. Additionally, we recognize that the Department has made revisions to these service continuity plans, including updates to the Playbook that was inspected during our fieldwork period.

The Department's Computer Security Handbook requires that the Department's systems follow the National Institute of Standards and Technology (NIST) recommendations and, as a minimum, include information system recovery¹ and

¹ Recovery – the implementation of prioritized actions required to return an organization's processes and support functions to operational stability following an interruption or disaster.

reconstitution² processes to restore the system to its last known functioning state for all supporting configurations such as database and application structures and workflows. The Office of the Chief Financial Officer (OCFO) is leading an effort to develop manual procedures to support the continuity of certain essential financial transactions in the event of complete financial system unavailability, including the unavailability of the alternate processing site. This, however, is a short-term measure in such a situation. As such, the Office of the Assistant Secretary for Administration and Management (OASAM) is developing a plan for the Department to transfer the operations of NCFMS from its current contractor to a shared service provider's contractors in the event that would become necessary.

Our review of NCFMS service continuity plans included determining whether the Department has planned, documented, and tested the recovery and restoration of the Department's financial data from the current system or their alternate procedures. As a result of our review completed on July 15, 2014, we identified weaknesses that could have serious consequences to the Department in the recovery plans it would implement as an immediate response in the event of a system outage. Those recovery plans include the resumption of certain high priority core financial operations by manual processes. We noted, however, that those plans contained incomplete and insufficiently detailed financial transactions and processes. Further, the Department had not fully developed a comprehensive plan for the recovery or reconstitution of financial data into an approved financial system after a disruption, compromise, or failure. Lastly, we noted additional considerations for the Department regarding coordination with its Emergency Management Center, as well as using an existing federal shared service provider with a standardized financial management system solution.

Recovery and Reconstitution

Planned Manual Processes Are Incomplete and Not Sufficiently Detailed

The Department is developing plans to resume certain financial operations by manual processes in the event of a system outage. The OCFO recognizes that conducting its normal financial operations without a functioning financial management system is not possible, and has documented the highest priority core financial processes in the Playbook. The June 30, 2014, version of the Playbook, however, was limited to maintaining Funds Control and Payment Processing and was not intended to perform typical general ledger activities or external financial reporting.

NIST Special Publication 800-53 Security and Privacy Controls for Federal Information Systems and Organizations, version 4, requires the following:

Critical information system assets include technical and operational aspects. Technical aspects include, for example, information

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technology services, information system components, information technology products, and mechanisms. Operational aspects include, for example, procedures (manually executed operations) and personnel (individuals operating technical safeguards and/or executing manual procedures).

We noted a lack of completeness in the operational aspects of the planned manual processes for financial transactions. Based on the procedures documented in the June 30, 2014, version of the Playbook, the following activities – which are necessary for the Department to fulfill its responsibility for being publicly accountable – are not sufficiently addressed or would not occur in the proposed manual processing environment:

- Using monitoring controls to detect or prevent possible fraudulent or improper payments (for example, no controls were defined for the approval of new vendors on invoices received);
- Describing procedures sufficiently, such as the validation of a vendor's banking information to the information entered on the "Commercial Invoice Tracking Log", and then addressing sufficiently in the Playbook how banking information listed on this log, which would be distributed to numerous individuals, would be protected from modification or unauthorized use;
- Maintaining financial records that comply with the U.S. Standard General Ledger;
- Adhering to Federal Accounting Standards and Advisory Board requirements;
- Reporting information required by the U.S. Department of the Treasury (Treasury); and
- Complying with the Chief Financial Officers Act for financial reporting.

Department management indicated that a waiver from the Office of Management and Budget (OMB) can likely be obtained related to the last four bulleted items above in the event NCFMS becomes unavailable. However, the duration of a possible waiver is unknown, and the longer the time period covered by such a waiver, the higher the risks and efforts associated with future compliance with these requirements and laws.

Further, the processes described in the June 30, 2014, version of the Playbook were not sufficiently detailed to ensure consistent, accurate, and transparent accounting for tracking and controlling Department funds. For example, this version of the Playbook did not sufficiently describe how past due amounts owed to the Department would be subjected to interest, penalty, and administrative charges for the period of delinquency, nor did it include procedures for how delinquent debts would be referred to Treasury for collection. Furthermore, procedures to verify the completeness and accuracy of reports such as the 'Funds Availability Report' or the 'NCFMS Open Commitments Report' were

not documented. A lack of these procedures could result in violations of the Anti-Deficiency Act.

Plans Must Be Completed to Reconstitute Financial Operations after Disruption

At the time of our review, the Department had not fully developed a comprehensive plan for the recovery or reconstitution of financial data into an approved financial system after a disruption, compromise, or failure, whether it is NCFMS or another integrated financial system, such as Oracle Federal Financials or SAP. Not having fully developed a comprehensive plan for the reconstitution of data to an information system, including deactivation of any interim capabilities such as those in the June 30, 2014, version of the Playbook that may have been needed during recovery operations, increases the risk that reconstitution to normal operations may not be feasible and that all financial data may not be captured in the new system. For example, we noted limited planning as to the manner by which detailed and summary level transactions, such as overpayments or tax collections, would be documented for recording in or restoration to the general ledger once available.

One scenario the Department is planning for in the event that its financial system contractor is unavailable to operate the current financial system, is to transfer the operations of the system to a shared service provider and its contractors. The Department's plan includes a transition period during which [REDACTED]. As this planning was still in development at the time of our review, we could not determine whether the Department included sufficiently detailed procedures to use during this transition period that would enable the new contractors to successfully operate the system [REDACTED]. However, we were informed that OCFO has started assessing capabilities and identifying gaps that would need to be addressed during a transition.

Our analysis indicates the Department needs to ensure, at a minimum, that its final transition plan includes the following:

- Transferring system operations and special knowledge to the new NCFMS operator.
- Negotiating the current contractor's participation during the transition, including commitment of the current contractor's key personnel.
- Transferring hardware from the current contractor to the new NCFMS operator.
- Defining critical processes performed by the current contractor on behalf of the Department (e.g., backups, access provision, patch management, and promoting changes to production).
- Establishing equipment and software maintenance support contracts.

- Transitioning problem management processes (e.g., help desk).
- Defining the roles and responsibilities for OCFO and OASAM during the transition.

Under this scenario, the transition period is particularly critical to ensure the full recovery and reconstitution of the Department's financial management system. During this transition period, the Department must maximize the transfer of knowledge for all aspects of the operation.

The Department responded that the OIG misunderstands the intent of assuming the operations of NCFMS as it was an interim solution and not intended as a substitute for moving to a shared service solution. We understand that this was intended to be a temporary measure; however, the concern listed above is to be noted regardless of the length of time such a scenario would be in effect and even amplified if multiple transitions are to occur. Specifically, the risk of having incomplete or inaccurate data escalates as information is transferred through multiple support structures as individuals will be required to learn the operations of the current system and process.

Additional Considerations for Contingency Planning

Coordinating with the Department's Emergency Management Center

Department of Labor Manual Series, DLMS 2 - Chapter 1400 establishes that the Department's Emergency Management Center (EMC) oversees and centrally manages the Department's emergency management programs. Further, the EMC Director is responsible for overseeing the development, conduct, and evaluation of Department continuity plans, tests, training, and exercises. We noted that the June 30, 2014, version of the Playbook was created without coordination or communication with the EMC or the OCFO Contingency Plan Liaison to the EMC. Including these key individuals in the development of the comprehensive plan for the continuity and recovery of the essential financial functions could have assisted in identifying vulnerabilities that were not originally addressed.

Using an Existing Federal Shared Service Provider with a Standardized Financial Management Solution

NCFMS is an integrated suite of applications designed and developed to meet specific Department system requirements and business processes. This customized suite has, however, resulted in a large and complex environment that cannot easily be updated

[REDACTED]

Even though OMB Memorandum M 13-08 "directs all executive agencies to use [...] a shared service solution for future modernizations of core accounting or mixed systems"

to recover or reconstitute from the current system or its alternate procedures, the Department has considered but not finalized a decision related to using a shared service provider's solution to provide for its financial management system operational needs. While the Department is planning for the scenario mentioned previously in which a shared service provider's contractors would operate its current financial system, this effort would not meet the intent of using a shared service provider as the Department would continue to utilize a fully customized system that is used only by it and another small federal agency, rather than using a shared, standardized financial management system.

Using an unmodified and shared integrated financial management software solution through a shared service provider would allow the Department to use a system implemented and operated by more experienced staff that have a proven track record of successfully servicing Federal agencies. Further, using such a solution would reduce risks associated with cost, quality and performance as the standardized solution would meet government-wide requirements for benchmarking and governance and leverage best practices.

The Department maintains that it had made the decision to move to a shared service provider in February 2014. However, we were not provided clear documentation this decision was made nor a specific date of when a transition would occur. Regardless of what the Department has decided, its financial management operations are at increased risks until a full transition has been completed.

Recommendations

As noted above, management has indicated that certain recommendations have subsequently been addressed or are in the process of being addressed as they continue their planning efforts. Therefore, we recommend the Department:

1. Finalize the Playbook to include additional details around the processes, addressing at a minimum the vulnerabilities identified in this report.
2. Finalize plans for the reconstitution of manually processed, interim data into a financial system of record.
3. Finalize plans for the transition of NCFMS assets and processes to a new service provider.
4. Continue to timely communicate to key stakeholders the results and updates to the Playbook and other service continuity plan documents.
5. Continue to seek and incorporate guidance from key stakeholders, such as the EMC, during development of comprehensive plans for the continuity and recovery of the essential financial activities.

6. Finalize the consideration of using an available shared service provider offering a standardized integrated financial management system as recommended by OMB.

We request that you respond to this memorandum in 10 days and include actions taken or planned. You should be aware that the memorandum will be available to the public on the OIG website. When it is received, your written response will also be posted to the OIG website. We will continue to monitor the Department's progress in finalizing its continuity plans.

If you have any questions, please contact me or, alternatively, your staff may contact Elliot P. Lewis, Assistant Inspector General for Audit at (202) 693-5170.

Attachment

cc: Karen Tekieberhan, Acting Chief Financial Officer
T. Michael Kerr, Assistant Secretary for Administration and Management
Edward Hugler, Deputy Assistant Secretary for Operations
Gary Maupin, Associate Deputy Chief Financial Officer for Fiscal Integrity
Myrian Myer, Associate Deputy Chief Financial Officer for Financial Systems
Patrice Clement, Director, Division of Customer Support, OCFO
Robert Balin, OCFO Audit Liaison



AUG 11 2014

MEMORANDUM FOR SCOTT S. DAHL
Inspector General

FROM: T. MICHAEL KERR
Assistant Secretary for
Administration and Management

SUBJECT: Department of Labor's Financial Management Continuity Plans

I've been asked to provide a response to your draft memorandum to the Deputy Secretary (attached), received by Departmental leadership on August 7, 2014, with the understanding that: 1) the OIG's August 7 draft memorandum will be substantially unchanged when finalized, and 2) this reply will be attached to the OIG's final memorandum. We appreciate the Inspector General's recognition that the Department of Labor ("DOL" or "Department") has made significant progress in developing its financial management continuity plans, and we agree that these activities need to be continued and finalized as appropriate. Be assured that is precisely our intention.

As acknowledged in your August 7 draft memorandum, the analysis and recommendations are based on field work conducted from June 26, 2014, through July 15, 2014, including the June 30, 2014, version of the Office of the Chief Financial Officer's (OCFO) Manual Financial Transaction Playbook (Playbook). We appreciate that you also acknowledge that the Department has continued to update the Playbook, with subsequent versions issued on July 15, 2014, and August 5, 2014. Notably, these updated versions reflect important additions and refinements from extensive consultations and actual exercises with DOL agencies, including the Office of Inspector General (OIG). The additions and refinements since the June 30 version of the Playbook also comport with a number of the observations in your August 7 draft memorandum.

For example, in the latest version of the Playbook, August 5, under the section Invoices and Payments, there is an express acknowledgement that system controls to minimize improper payments would not be in effect in the event NCFMS became unavailable. To compensate for the absence of automated controls, the Playbook outlines a number of types of improper payments, ranging from inaccurate charges to payments certified by unauthorized personnel. To mitigate the risk of each, the Playbook specifies roles and responsibilities, which include detection and prevention, for how these types of improper payments will be manually identified and controlled.

We will go into further detail in our response to the recommendations in your August 7 draft memorandum. We also intend to further refine the Playbook going forward as well and will keep your office informed as we make updates.

Except as noted below, we generally accept the analysis and recommendations in your August 7 draft memorandum, with the understanding that the field work upon which it is based ended nearly a month ago. As noted above, we have continued to diligently update the Playbook and a number of the additions are responsive to the recommendations in your August 7 draft memorandum. There are, however, two very important points of clarification that need to be made.

Based on the February 25, 2014 Department of the Treasury (Treasury) Bureau of the Fiscal Services, Division of the Office of Financial Innovation and Transformation's (FIT) memorandum to the Office of Management and Budget (OMB), the Department made the decision to migrate to a designated federal shared service provider, instead of procuring a new commercial financial system to take over at the end of the anticipated end of the current financial services contract, June 2016. Our identified shared service provider, as recommended by Treasury, is the Department of Transportation's (DOT) Enterprise Services Center (ESC). Our actions since late February, including our dialogue with DOT/ESC, have all been geared toward this end. If there is any doubt about this decision, please consider this our reaffirmation of that direction and that the contingency efforts do not change either the decision to migrate or the timing for the complete migration.

Your August 7 draft memorandum also reflects a more fundamental misunderstanding. There have never been plans to have DOT/ESC assume operations and maintenance of NCFMS as substitute for moving to DOT/ESC's shared service platform, as postulated in your August 7 draft memorandum. As we have explained, including in my June 4, 2014 reply to your May 29, 2014 memorandum about our contingency planning for the financial system, the current plan, as it relates to DOT/ESC, is to stabilize NCFMS as an *interim* measure [REDACTED]

[REDACTED] As we have discussed, [REDACTED]

Once DOL is confident that the interim financial system is stable, DOL will resume working with DOT/ESC to prudently plan DOL's transition to DOT/ESC's shared service offering, which likely will occur over an 18 month to two-year time frame. Transitioning from one financial system to another, even to a Federal shared service provider, takes significant time to properly plan and implement, and the Department wants that transition to be as seamless and smooth as possible.

Indeed, it is for this very reason that we asked DOT/ESC to assume operations and maintenance of NCFMS as an *interim measure*, so they would be knowledgeable and familiar with DOL financial management requirements as we plan for and transition to the DOT/ESC shared services. Indeed, one of the goals of the contingency efforts is for the same transition from the current financial system to the shared service provider to occur, and that this interim measure will improve that transition. If at any time this path forward was unclear, it could have been readily addressed by me or any of the DOL staff directly involved.

Finally, please be advised that in both your August 7 draft memorandum and this response there is procurement sensitive information. As such, appropriate safeguards should be taken to avoid any violation of the Procurement Integrity Act.

Thank you again for your memorandum and your identification of possible issues related to contingency planning. As discussed above, the Department has already started implementing many of the recommendations and will continue working on finalizing the contingency plans. The Department will continue to keep the OIG closely apprised of its contingency planning going forward, and we welcome the OIG's involvement in that process.

Attachment

cc: Christopher P. Lu, Deputy Secretary
Matthew Colangelo, Chief of Staff
Karen Tekleberhan, Acting Chief Financial Officer

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Deputy Secretary

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2. Finalize plans for the reconstitution of manually processed, interim data into a financial system of record.
3. Finalize plans for the transition of NCFMS assets and processes to a new service provider.
4. Continue to timely communicate to key stakeholders the results and updates to the Playbook and other service continuity plan documents.
5. Continue to seek and incorporate guidance from key stakeholders, such as the EMC, during development of comprehensive plans for the continuity and recovery of the essential financial activities.
6. Finalize the consideration of using an available shared service provider offering a standardized integrated financial management system as recommended by OMB.

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If you have any questions, please contact me or, alternatively, your staff may contact Elliot P. Lewis, Assistant Inspector General for Audit at (202) 693-5170.

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