

Audit

Report



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YEAR 2000 COMPUTING ISSUES RELATED TO THE
DEFENSE FUELS AUTOMATED MANAGEMENT SYSTEM

Report No. 99-161 May 17, 1999

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Acronyms

DESC	Defense Energy Support Center
DFAMS	Defense Fuels Automated Management System
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DLSC	Defense Logistics Support Command
DSDC	Defense Logistics Agency Systems Design Center
Y2K	Year 2000



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

May 17, 1999

MEMORANDUM FOR DIRECTOR, DEFENSE INFORMATION SYSTEMS
AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Year 2000 Computing Issues Related to the Defense Fuels
Automated Management System (Report No. 99-161)

We are providing this report for review and comment. The Defense Logistics Agency did not respond to the draft report; however, we considered comments from the Defense Information Systems Agency in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Logistics Agency did not respond to the draft report and comments from the Defense Information Systems Agency were partially responsive. As a result of management comments, we redirected Recommendation 1. from the Defense Logistics Agency and the Defense Information Systems Agency to only the Defense Logistics Agency. We also added Recommendation 3. Therefore, we request that the Defense Information Systems Agency provide comments on Recommendation 3. and the Defense Logistics Agency provide comments on Recommendations 1., 2., and 3. by June 17, 1999.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Robert M. Murrell at (703) 604-9210 (DSN 664-9210), email <rmurrell@dodig.osd.mil>, or Mr. Joseph M. Austin at (703) 604-9178 (DSN 664-9178), email <jaustin@dodig.osd.mil>. See Appendix B for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-161
(Project No. 9LB-9006)

May 17, 1999

Year 2000 Computing Issues Related to the Defense Fuels Automated Management System

Executive Summary

Introduction. This is one in a series of reports being issued by the Inspector General, DoD, in accordance with an informal partnership with the Chief Information Officer, DoD, to monitor DoD efforts to address the year 2000 computing challenge. For a listing of audit projects addressing the issue, see the year 2000 webpage on the IGnet at <http://www.ignet.gov>.

The Defense Energy Support Center, a Defense Logistics Agency activity, is the central manager for the acquisition, storage, distribution, and sale of energy products within DoD. This includes the management of electricity and fuel products such as coal, natural gas, and petroleum. The Defense Energy Support Center uses the mission-critical Defense Fuels Automated Management System (DFAMS) to manage the various fuel products. The Defense Logistics Agency did not meet the DoD year 2000 target date of December 31, 1998, for implementing corrective actions to DFAMS. Defense Logistics Agency planning officials estimated that the DFAMS year 2000 corrective actions will be implemented by May 1999.

Objectives. The overall audit objective was to determine whether DFAMS would operate after the year 2000. Specifically, the audit focused on year 2000 risk assessments, testing, and contingency plans related to DFAMS.

Results. Renovated DFAMS programs had been tested on a domain that was not year 2000 compliant. The Defense Energy Support Center had not developed contingency plans that identified methods for conducting operations in the event DFAMS suffered a year 2000 disruption. As a result, test results may not reflect DFAMS actual year 2000 performance. Incomplete contingency plans could lengthen the time that would elapse before business operations could resume if year 2000-related disruptions occur in DFAMS computer operations. See Finding section of report for details on the audit results.

Summary of Recommendations. We recommend that the Director, Defense Logistics Agency assess the risk associated with testing the renovated DFAMS programs on a test domain that was not year 2000 compliant and determine the need for retesting and develop operational contingency plans. Additionally, we recommend that the Director, Defense Logistics Agency, in conjunction with the Director, Defense Information Systems Agency, ensure that the test domain is year 2000 compliant before the certification of DFAMS as year 2000 compliant.

Management Comments. The Director, Defense Information Systems Agency nonconcurred with the recommendation that the Director, Defense Logistics Agency, in conjunction with the Director, Defense Information Systems Agency, assess the risks associated with testing the renovated DFAMS programs on a test domain that was not year 2000 compliant. The Defense Information Systems Agency stated that it is the customer's responsibility to assess the risk of testing applications on a domain that is not year 2000 compliant. The Defense Information Systems Agency also stated that the DoD Year 2000 Management Plan does not specify that an application be tested in a year 2000 compliant environment. The Defense Logistics Agency did not comment on the draft of this report. A discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

Audit Response. Comments from the Defense Information Systems Agency are partially responsive. We do not agree with the Defense Information Systems Agency assessment that the DoD Year 2000 Management Plan does not require that applications be tested in a year 2000 compliant environment. The DoD Management Plan states that, in order for a system to meet the minimum exit criteria for the validation phase, the system, among other things, must be tested on a compliant domain and in an operationally compliant environment. We agree with the Defense Information Systems Agency that it is the customer's responsibility to assess the risk of testing applications on a domain that is not year 2000 compliant. As a result of comments from the Defense Information Systems Agency, we redirected the recommendation from the Defense Logistics Agency and the Defense Information System Agency to only the Defense Logistics Agency. We request that the Defense Information Systems Agency and the Defense Logistics Agency provide comments on the final report by June 17, 1999.

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Background

Defense Fuels Automated Management System. The Defense Energy Support Center (DESC), a Defense Logistics Agency (DLA) activity, is the central manager for the acquisition, storage, distribution, and sale of energy products within DoD. It manages electricity and fuel products such as coal, natural gas, and petroleum. DESC uses the Defense Fuels Automated Management System (DFAMS) to manage the various fuel products. DFAMS is a DLA mission-critical standard automated information system that provides an integrated tool for the procurement, inventory control, distribution, and financial management that support the material management of bulk fuel and petroleum products. The system is used to process about \$5 billion a year in fuel payments. DFAMS was ranked 10th in priority among 33 DLA mission-critical systems. The ranking was based on the importance of DFAMS to readiness, customer service, and personnel and environmental safety and its impact on other systems. The Fuels Automated System was slated to replace DFAMS in FY 2000. However, because implementation of the Fuels Automated System fell behind schedule, a decision was made in November 1997 to renovate DFAMS to make it year 2000 (Y2K) compliant. About \$3 million is being expended to renovate DFAMS.

DLA Y2K Management Strategy. The DLA approach for fixing Y2K problems calls for centralized management and decentralized implementation. The Director, DLA has overall responsibility for ensuring continued DLA mission capability. The Chief Information Officer, DLA is responsible for the planning, management, and execution of the DLA Y2K Program.

DLA Systems Design Center. The DLA Systems Design Center (DSDC) is the DLA central design activity responsible for addressing and resolving hardware and software related problems associated with Y2K compliance of DLA automated systems. DSDC has been tasked to lead the development of automation support necessary to make DFAMS hardware and software Y2K compliant.

Defense Logistics Support Command. As a major subordinate command of DLA, the Defense Logistics Support Command (DLSC) provides centralized logistics support to the Military Departments as well as Federal civil agencies and foreign governments. Such support includes everything from erecting a defense reutilization and marketing function at the mission site, to arranging fuel support in-country to supply a multinational mission. DLSC is responsible for five inventory control points, one of which is DESC.

Defense Information Systems Agency. The Defense Information Systems Agency (DISA) is the central manager for major portions of the Defense Information Infrastructure. DISA is responsible for planning, developing and supporting command, control, communications, computers, and intelligence operations functions. In that capacity, DISA provides support to the DoD Chief Information Officer in executing Y2K initiatives, which includes maintenance of a list of tools to assist in resolving Y2K problems and a list of all commercial off-the-shelf products and their status as to Y2K compliance. DISA is also responsible for operating 16 computer processing activities referred to as megacenters.

Objectives

The overall audit objective was to determine whether DFAMS would operate after the year 2000. Specifically, the audit focused on Y2K risk assessments, testing, and contingency plans related to DFAMS. See Appendix A for a discussion of the scope and methodology and for a summary of prior coverage.

Renovation of Defense Fuels Automated Management System

Renovated DFAMS programs had been tested on a test domain that was not Y2K compliant. In addition, DESC had not developed operational contingency plans that identified methods for conducting operations in the event DFAMS suffered a Y2K disruption. The conditions existed because the DLA Y2K Program Office did not provide sufficient oversight of the DFAMS renovation. As a result, test results may not reflect DFAMS actual year 2000 performance. Incomplete contingency plans could lengthen the time that would elapse before business operations could resume if Y2K-related disruptions occur in DFAMS computer operations

Management of DLA Y2K Program

DLA established a Y2K program and took positive actions to resolve its Y2K problem. Specifically, DLA established a Y2K program management office, assigning the Chief Information Officer, DLA, as the focal point to plan, manage, and execute the DLA Y2K program. The DLA Y2K Program Office provides direct oversight of DLA Y2K efforts and reports to the Chief Information Officer, DLA.

In addition to the responsibilities of the Chief Information Officer, DLA, DSDC addresses and resolves hardware and software related problems associated with Y2K compliance for DLA automated systems. DSDC is tasked to lead the development of necessary automation support to make DFAMS Y2K compliant.

DLA Y2K Management Plan. The DLA Y2K Management Plan, version 1.3, November 1998, and the Defense Logistics Supply Command (DLSC) Management Plan, version 3.0, October 1998, provide the management approach for implementing the Y2K program's goals and objectives. The overall approach is derived from the five-phase DoD Management Plan. The DLA plans apply to all DLA organizations involved in the acquisition, development, maintenance, and use of automated data processing equipment and software.

Status of DFAMS. DFAMS is being renovated to make it Y2K compliant. The DESC initial Y2K plan was to replace DFAMS with the Fuels Automated System, a contractor, off-the-shelf package. However, because of a 4-month to 5-month slippage in fielding the Fuels Automated System, a decision was made in November 1997 to renovate DFAMS. The slippage in fielding the Fuels Automated System was caused by a late vendor delivery of acceptable products.

DoD, DLA, and DLSC guidance required system implementation to be completed by December 31, 1998. However, DSDC planning officials did not expect DFAMS implementation to be accomplished until May 1999.

DFAMS Testing

The overall Y2K test and certification process followed by DLA and the Y2K management process followed by DISA might not provide adequate assurance or support for DLA to certify that DFAMS is Y2K compliant. Although DLA implemented a Y2K program for DFAMS and was performing testing as the system was being renovated, portions of the DFAMS programs were renovated and tested on a test domain that was not Y2K compliant. We attribute this to a lack of oversight and coordination with DISA to ensure that testing was done on a Y2K compliant domain. Also, the DFAMS production domain that was scheduled to be Y2K compliant in May 1999 may not be Y2K compliant, because portions of the DFAMS programs were tested on a domain that was not Y2K compliant.

Test Domain. The August 18, 1998, DFAMS test plan cites the test criteria and strategies to be followed for DFAMS to become Y2K compliant. Functional test of DFAMS was scheduled for May 1999. Although DFAMS programs are tested as they are renovated, programs that were renovated were tested on a test domain that was not Y2K compliant. As of January 1999, the DFAMS progress report showed that about 80 percent of the lines of code and 83 percent of the programs had been renovated and tested. There was no plan to retest those programs. The DoD Management Plan requires that a system be tested on a compliant domain in an operationally compliant environment as a means to exit the validation phase. Because renovated DFAMS programs were not tested in a Y2K compliant domain, DLA should perform a risk assessment, in conjunction with DISA, before certifying DFAMS as Y2K compliant.

Production Domain. DFAMS production domain was scheduled to be Y2K compliant by May 30, 1999, at the time when DFAMS was to be completely renovated and tested. However, because the DFAMS programs were tested on a test domain that was not Y2K compliant, the production domain may not be Y2K compliant.

End-to-End Testing. DFAMS will not be involved in end-to-end testing because renovation will not be completed by the time the end-to-end testing is set to begin. Also, DFAMS will not be included in Y2K end-to-end testing because it did not meet the criteria for end-to-end testing set forth by the logistics Y2K Interface Assessment Working Group in a January 1999 conference.

Development of Operational Contingency Plans

DESC had not developed operational contingency plans. The DESC draft Y2K Business Continuity and Contingency Plan, November 1998, did not include operational contingency plans that addressed alternative work processes for maintaining the continuity of DFAMS business functions.

Purpose of Operational Contingency Plans. Operational contingency plans provide detailed workaround procedures to be employed should critical systems fail because of Y2K or interoperability problems.

DoD Year 2000 Management Plan, Version 2.0, December 1998. The DoD Year 2000 Management Plan (DoD Management Plan) states that contingency plans are required for all mission-critical systems, systems that were not Y2K compliant by March 1999, and any system 2 months or more behind schedule. The DoD Management Plan states that realistic contingency plans are to be established for each system during the assessment phase and should address the development and activation of manual procedures or alternative contracted methods that ensure continuity of core processes.

DESC Core Business Functions. Four of the DESC core business functions rely on DFAMS to ensure that the DESC business processes continue uninterrupted. The DESC Business Continuity and Contingency Plan identifies four DESC core business processes: acquisition management, asset management, facilities management, and financial management. DESC Components had been tasked to develop operational contingency plans for those DESC core business processes.

Operational Contingency Plans. DESC Components had not developed operational contingency plans for subsystems that supported the core business processes. For example, within the financial management core business process, operational contingency plans had not been developed for a critical DFAMS subsystem, the Automated Voucher Examination and Disbursement System. We attribute the condition to a lack of sufficient oversight of the DFAMS renovation.

The DESC Director of Information Systems identified the Automated Voucher Examination and Disbursement System as the most critical DFAMS subsystem. The Defense Finance and Accounting Service receives contractor bills and utilizes the Automated Voucher Examination and Disbursement System to process vendor payments. If DFAMS suffers Y2K disruptions, then the Defense Finance and Accounting Service may be unable to process contractor requests for payment, which could result in the refusal of vendors to deliver fuel. Furthermore, DESC could incur interest payments for violating the Prompt Payment Act, because of

late payment of vendors bills. DESC estimated those bills at \$30 million per month. In addition, DESC could possibly be unable to establish contracts and manage the inventory, leading to storage and transportation problems.

Completion of Operational Contingency Plans. DLSC planning officials expected operational contingency plans to be developed by March 1999, as required by the DoD Management Plan. As of the end of January 1999, management did not have drafts of operational contingency plans. Because of the questionable status of the DFAMS renovation, the development of operational contingency plans needs to be accomplished. Incomplete contingency plans could lengthen the time that would elapse before business operations could resume if Y2K-related disruptions occur in DFAMS computer operations.

Summary

Because DFAMS will not be included in end-to-end testing but will interface with the Defense Finance and Accounting Service, it is imperative that all DFAMS programs are tested in a Y2K domain that is Y2K compliant. The problems that would occur if DFAMS does not function include the inability to establish contracts, perform billing and payment functions, and manage the inventory. In addition, there is the potential for large late payment penalties, missed payment discounts, incorrect inventories leading to storage and transportation problems, and loss of inventory. Extraordinary manual efforts by DESC and the Defense Finance and Accounting Service would be required to accomplish day-to-day mission support functions. A Y2K failure, therefore, would result in serious mission and financial impacts on DLA, DESC, the Defense Finance and Accounting Service, and the Military Components that depend on DESC for their fuel requirements

Recommendations, Management Comments, and Audit Response

Redirected and Added Recommendations. As a result of comments from the Defense Information Systems Agency, we redirected Recommendation 1. from both the Defense Logistics Agency and the Defense Information Systems Agency to only the Defense Logistics Agency and added Recommendation 3.

1. We recommend that the Director, Defense Logistics Agency assess the risk associated with testing the renovated Defense Fuels Automated Management System programs on a non-year 2000 compliant test domain. Based on the results of the risk analysis, determine the need to retest Defense Fuels Automated Management System programs.

DLA Comments. DLA did not comment on a draft of this report. We request that DLA comment on the final report.

DISA Comments. DISA nonconcurred, stating that it is the customer's responsibility to assess the risk of testing applications on a domain that is not Y2K compliant. DISA stated that it is responsive to its customers requests to establish Y2K test domains and that the baselines of the domains are Y2K compliant. Additionally, DISA stated that it abides by the standards set in the DoD Management Plan, which does not specify that an application be tested in a Y2K compliant environment. Further, DISA stated that it continues to respect the complete authority that its customers have over their applications and would encourage DLA to assess the risk of testing its applications in a non-Y2K compliant domain.

Audit Response. The DISA comments are partially responsive. We agree that DLA is responsible for assessing any risks associated with testing on a domain that is not Y2K compliant and redirected this recommendation to only DLA. We do not agree with the DISA assessment that there is no requirement to test applications in a Y2K compliant environment. The DoD Management Plan states that, in order for a system to meet the minimum exit criteria for the validation phase, the system, among other things, must be tested on a compliant domain and in an operationally compliant environment. The DoD Management Plan also states that a waiver must be obtained for a system that will not be validated in a compliant environment by January 31, 1999. At the time of our audit, about 80 percent of DFAMS had been renovated and tested on a domain in which 9 of the 107 applications were not Y2K compliant. Waivers had not been obtained for the nine noncompliant applications. We added Recommendation 3. to address that issue.

2. We recommend that the Director, Defense Logistics Agency develop operational contingency plans for the Defense Fuels Automated Management System.

DLA Comments. DLA did not comment on a draft of this report. We request that DLA comment on the final report.

3. We recommend that the Director, Defense Logistics Agency, in conjunction with the Director, Defense Information Systems Agency, ensure that the test domain is year 2000 compliant before the certification of the Defense Fuels Automated Management System as year 2000 compliant.

Appendix A. Audit Process

This is one in a series of reports being issued by the Inspector General, DoD, in accordance with an informal partnership with the Chief Information Officer, DoD, to monitor DoD efforts to address the Y2K computing challenge.

Scope and Methodology

Work Performed. We reviewed documented efforts made by Headquarters, DLA; DLSC; and DESC from September 1997 through February 1999 to ensure that the operation of DFAMS would not be unduly disrupted by Y2K problems. We also reviewed DoD, DLA, and DLSC Y2K Management Plans and obtained and reviewed DoD and DLA policy guidance on Y2K program management and reporting. We interviewed key personnel from the organizations that were responsible for management of fuel systems to determine the status of DFAMS renovation.

We determined whether adequate progress was being made to make DFAMS Y2K compliant. We obtained documentation on system inventory status, interface agreements, contingency plans, and other pertinent documents. We used the information from interviews and documents to assess efforts related to making DFAMS Y2K compliant. Data reviewed were current as of February 1999.

DoD-Wide Corporate Level Goals. In response to the Government Performance and Results Act, the DoD has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting the objectives. This report pertains to achievement of the following objective and goal

Objective: Prepare now for an uncertain future.

Goal: Pursue a focused modernization effort that maintains United States qualitative superiority in key war fighting capabilities. (DoD-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 objectives and goals, in the Information Technology Management Functional Area.

- **Objective:** Become a mission partner.
Goal: Serve mission information users as customers (ITM-1.2)
- **Objective:** Provide services that satisfy customer information needs.
Goal: Modernize and integrate Defense information infrastructure. (ITM-2.2)
- **Objective:** Provide services that satisfy customer information needs.
Goal: Upgrade technology base. (ITM-2.3)

High-Risk Area. In its identification of risk areas, the General Accounting Office has specifically designated risk in resolution of the Y2K problem as high. This report provides coverage of that problem and of the overall Information Management and Technology high-risk area.

Audit Type, Dates, and Standards. We performed this program audit from November 1998 through February 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not use computer-processed data for this audit.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available upon request.

Management Control Program. We did not review the management control program related to the overall audit objective because DoD recognized the Y2K issue as a material management control weakness area in the FY 1998 Annual Statement of Assurance.

Summary of Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to Y2K issues. General Accounting Office reports can be accessed over the Internet at <http://www.gao.gov>. Inspector General, DoD, reports can be accessed over the Internet at <http://www.dodig.osd.mil>. The following reports address issues that are discussed in this report.

General Accounting Office

General Accounting Office Report No. GAO/AIMD-97-106 (OSD Case No. 1389), "Defense Computers: Issues Confronting the Defense Logistics Agency in Addressing Year 2000 Problems," August 12, 1997.

Inspector General, DoD

Inspector General, DoD, Report No. 99-100, "Year 2000 Computing Issues: Defense Logistics Agency Distribution Standard System," March 2, 1999.

Inspector General, DoD, Report No. 98-193, "Evaluation of the Defense Megacenters Year 2000 Program," August 25, 1998.

Appendix B. Report Distribution

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Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Special Committee on the Year 2000 Technology Problem
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 Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
Relations, Committee on Government Reform

Defense Information Systems Agency Comments

Inspector General (IG)

12 APRIL 1999

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
(ATTN: READINESS AND LOGISTICS SUPPORT
DIRECTORATE)

SUBJECT: Response to DoD IG Draft Report, Year 2000 Computing
Issues Related to the Defense Fuels Automated
Management System (DFAMS) (Project 9LB-9006)

1. The following is the Agency's response to the subject report:

Recommendation # 1:

We recommend that the Director, Defense Logistics Agency, in conjunction with the Director, Defense Information Systems Agency, assess the risk associated with testing the renovated Defense Fuels Automated Management System programs on a non-Y2K compliant test domain. Based on the results of the risk analysis, determine the need to retest Defense Fuels Automated Management System programs.

DISA Response:

Respectfully non-concur with the following comments:

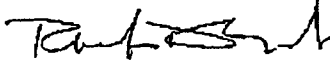
As part of the domain validation process, DISA determines hardware compliancy. Executive software and third party product compliancy is determined jointly by DISA and its customers. In determining application compliancy and certification, DISA relies on the statements made by the Central Design Activities or functional user community. Accountability for application re-mediation is with the application owners.

DISA is wholly responsive to its customers requests to establish Y2K test domains. The baseline of these domains are Y2K compliant, but DISA cannot affect what the customer does to the domain after it is turned over to them. Additionally, DISA abides by the standards set in the Department of Defense Y2K

Management Plan. These standards do not specify that an application be tested in a Y2K compliant environment.

DISA continues to respect the complete authority that our customers have over their applications and would encourage DLA to assess the risk of testing its application in a non-Y2K compliant domain. In the event DLA chooses to pursue this re-assessment, DISA would participate when and where DLA felt it appropriate.

2. If you have any questions, please call Jason Bakkar, Audit Liaison, at (703) 607-6607.


f RICHARD T. RACE
Inspector General

Audit Team Members

**The Readiness and Logistics Support Directorate, Office of the Assistant
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