



OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

MCC Could Improve Its Information Technology Governance To Conform to FITARA

AUDIT REPORT A-MCC-18-004-C
MARCH 28, 2018

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Office of Inspector General, U.S. Agency for International Development

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MEMORANDUM

DATE: March 28, 2018

TO: Millennium Challenge Corporation, Vice President, General Counsel and Corporate Secretary, Jeanne M. Hauch

FROM: Deputy Assistant Inspector General for Audit, Alvin A. Brown /s/

SUBJECT: MCC Could Improve Its Information Technology Governance To Conform to FITARA (A-MCC-18-004-C)

Enclosed is the final audit report on the Millennium Challenge Corporation's (MCC) implementation of the Federal Information Technology Acquisition Reform Act (FITARA). Although MCC was not required to implement FITARA, OIG initiated this audit to assess whether MCC could improve its information technology governance processes. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm Brown & Company CPAs and Management Consultants, PLLC (Brown & Company) to conduct the audit. The contract required Brown & Company to perform the audit in accordance with generally accepted government auditing standards.

In carrying out its oversight responsibilities, OIG reviewed Brown & Company's report and related audit documentation and inquired of its representatives. We found no instances in which Brown & Company did not comply, in all material respects, with applicable standards.

The objective of this performance audit was to determine whether MCC established a framework for the management and oversight of its information technology (IT), as prescribed in Office of Management and Budget (OMB) memorandum M-15-14, "Management and Oversight of Federal Information Technology," June 10, 2015. To answer the audit objective, Brown & Company compared MCC's IT management and governance policies, practices, and procedures with OMB M-15-14 common baseline requirements and FITARA requirements. The firm's work included a review of MCC's IT strategic and operational plans, management policies, procedures, processes, and practices for IT investments, and IT governance and control practices related to the implementation of FITARA. Brown & Company also obtained an understanding of the internal controls

over MCC's implementation of FITARA through interviews and observations, as well as through inspections of various documents, including organizational policies and procedures. Audit fieldwork was performed at MCC headquarters in Washington, DC, from November 7, 2016, through June 5, 2017.

Brown & Company concluded that MCC conformed to 6 of the 19 applicable OMB M-15-14 common baseline requirements. Specifically, MCC did the following:

- Assigned the chief information officer (CIO) a significant role in the decision processes for all annual and multiyear planning, programming, budgeting, and execution decisions.
- Assigned the CIO a role on the program governance boards that include IT resources.
- Designated the CIO to recommend to MCC's Chief Executive Officer the modification, suspension, or termination of any acquisition, investment, or activity that includes a significant IT component based on the CIO's evaluation, within the terms of the relevant contracts and applicable regulations.
- Involved the CIO in approving the recruitment and selection of leadership with CIO-related duties.
- Involved the CIO and the chief human capital officer in developing a set of competency requirements for IT staff, including those in IT leadership positions, to develop and maintain a current workforce planning process.
- Involved the CIO in preparing and providing to OMB comprehensive data center inventories.

However, the audit determined that MCC did not conform in the following areas:

- MCC's CIO did not report directly to MCC's Chief Executive Officer or Deputy Chief Executive Officer as required by the Clinger-Cohen Act of 1996 (Public Law 104-106).
- MCC did not have a corporate-wide glossary of terms that included definitions of FITARA terms and requirements, as required by the Clinger-Cohen Act.
- MCC had not updated its Budget Formulation Policy and Procedure Manual to make its CIO responsible and accountable for the life-cycle management of all IT assets, from acquisition initiation to disposal.
- MCC's CIO did not consistently review and approve IT acquisition strategies and plans that originated outside the Office of CIO.

To address the weaknesses identified in the report, Brown & Company made and OIG agrees with the following seven recommendations to MCC's management. We will track them until fully implemented. We recommend that MCC:

Recommendation 1. Restructure the corporation's organizational structure for the chief information officer to report directly to the corporation's Chief Executive Officer or the Deputy Chief Executive Officer, as required by the Clinger-Cohen Act.

Recommendation 2. Create a corporation-wide glossary of key terms and definitions, which incorporates the Clinger-Cohen Act's definitions of "information technology resources" and "information technology."

Recommendation 3. Perform a corporation-wide self-assessment using the Federal Information Technology Acquisition Reform Act implementation guidelines in Office of Management and Budget M-15-14.

Recommendation 4. Prepare a plan to implement the Federal Information Technology Acquisition Reform Act as prescribed by Office of Management and Budget M-15-14.

Recommendation 5. Update the corporation's budget formulation and planning policies and procedures to include the chief information officer's roles, responsibilities, and requirements found in Office of Management and Budget M-15-14.

Recommendation 6. Update the corporation's information technology acquisition strategy procedures to include a requirement for the chief information officer to review and approve all information technology cost estimates and information technology acquisition strategies and plans.

Recommendation 7. Implement policies and procedures requiring the chief information officer to review and approve all agreements for the acquisition of information technology goods and services before they are awarded.

In finalizing the report, Brown & Company and OIG evaluated MCC's responses to the recommendations. Both the audit firm and OIG consider all of the recommendations unresolved. We ask that you provide written notification of actions planned or taken to reach management decisions on recommendations 1 through 7.

We appreciate the assistance extended to our staff and Brown & Company's employees during the engagement.

**THE MILLENNIUM CHALLENGE CORPORATION
HAS GAPS IN CONFORMING WITH
THE FEDERAL INFORMATION
TECHNOLOGY ACQUISITION
REFORM ACT (FITARA)**

February 26, 2018

Final Report

Submitted by:

**Brown & Company CPAs and
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1101 Mercantile Lane, Suite 122
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**THE MILLENNIUM CHALLENGE CORPORATION
HAS GAPS IN CONFORMING WITH
THE FEDERAL INFORMATION TECHNOLOGY
ACQUISITION REFORM ACT (FITARA)**

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**THE MILLENNIUM CHALLENGE CORPORATION
HAS GAPS IN CONFORMING WITH
THE FEDERAL INFORMATION TECHNOLOGY
ACQUISITION REFORM ACT (FITARA)**

INDEPENDENT AUDITOR'S REPORT

To: Office of the Inspector General for the
Millennium Challenge Corporation

This report presents the results of Brown & Company Certified Public Accountants and Management Consultants, PLLC's (Brown & Company) independent audit of the Millennium Challenge Corporation's (MCC or Corporation) implementation of the Federal Information Technology Acquisition Reform Act¹ (FITARA). MCC's Office of Inspector General (OIG) contracted with Brown & Company to conduct this independent audit of MCC's actions to establish a framework for management and oversight of its information technology (IT) assets, as prescribed by FITARA. This performance audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Office of Management and Budget (OMB) Memorandum M-15-14, "Management and Oversight of Federal Information Technology," dated June 10, 2015, (OMB M-15-14) provides implementation guidance for FITARA and related IT management practices. It also established a Common Baseline² for roles, responsibilities, and authorities of the agency Chief Information Officer (CIO) and the roles and responsibilities of other applicable senior agency officials in managing IT as a strategic resource (henceforth referred to as "OMB M-15-14 Common Baseline").

MCC is not a Chief Financial Officer (CFO) Act³ agency required to implement FITARA. However, the Corporation is one of the "other Executive Branch agencies" that OMB encouraged to implement FITARA and the principles of the OMB M-15-14 Common Baseline. The OMB M-15-14 Common Baseline provides a framework for implementing the specific authorities that FITARA provides for CFO Act agency CIOs, and builds upon their responsibilities as outlined in the Clinger-Cohen Act of 1996.

¹ Title VIII, Subtitle D of the National Defense Authorization Act (NDAA) for Fiscal Year 2015, Pub. L. No. 113-29. Further references in the text that refer to "FITARA" refer to these sections.

² OMB M-15-14, "Attachment A: Common Baseline for IT Management and CIO Assignment Plan."

³ Chief Financial Officers Act of 1990 (Public Law 101-576).

The objective of this performance audit was to determine whether MCC established a framework for management and oversight of its IT, as prescribed by FITARA. We conducted our audit by comparing MCC's IT management and governance policies, practices, and procedures to FITARA and OMB M-15-14 Common Baseline requirements.

The scope of our audit included a review of MCC's IT strategic and operational plans, management policies, procedures, processes, and practices of IT investments, and IT governance and control practices related to the implementation of FITARA. We obtained an understanding of the internal controls over the implementation of FITARA through interviews and observations, as well as inspections of various documents, including organizational policies and procedures. The audit fieldwork was performed at MCC's headquarters in Washington, D.C., from November 7, 2016 through June 5, 2017.


We concluded that MCC had not established a comprehensive framework to implement FITARA. Specifically, the Corporation had not developed a framework for the management and oversight of its IT, as required by OMB M-15-14. We found that MCC had implemented only 6 of the 19 applicable requirements contained in the OMB M-15-14 Common Baseline.⁴ Consequently, the audit identified areas of improvement and includes seven recommendations, which MCC should implement to conform to the OMB M-15-14 Common Baseline requirements.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives. Our report contains the audit results and audit approach.

This report is for the purpose of concluding on the audit objective described above. Accordingly, this report is not suitable for any other purpose.

We appreciate the assistance we received from the staff of MCC and appreciate the opportunity to serve you.

Sincerely,


Largo, Maryland
February 26, 2018

⁴ See detail results for the 13 of 19 exceptions in Appendix II – OMB M-15-14 Common Baseline of this report.

1. INTRODUCTION

The Millennium Challenge Corporation (MCC or Corporation) works to improve lives and transform communities around the world by focusing on one mission: reducing poverty through economic growth. MCC is working to expand impact, leverage public and private partners, and drive innovation to accomplish this mission. According to MCC's FY 2018 Congressional Budget Justification, the Corporation's 2017 total appropriation⁵ was \$905 million of which \$14.5 million was for Information Technology (IT) expenses.

Brown & Company Certified Public Accountants and Management Consultants, PLLC (Brown & Company) was engaged by MCC's Office of Inspector General (OIG) to conduct this audit to determine the extent to which MCC has implemented Federal Information Technology Acquisition Reform Act (FITARA)⁶ requirements to improve its IT management and oversight functions. To perform the audit, we used requirements contained in the Clinger-Cohen Act of 1996 (Clinger-Cohen Act), FITARA, and Office of Management and Budget (OMB) M-15-14, "Management and Oversight of Federal Information Technology," (henceforth referred to as OMB M-15-14). See Appendix I for the audit's scope and methodology.

The Clinger-Cohen Act was enacted in 1996 to improve the acquisition and management of Federal IT resources. A key requirement of the Act calls for the head of each agency to develop and implement a process for maximizing the value of IT acquisitions. The Act also established an approach for agencies to assess and manage IT acquisitions and risks to improve acquisition and oversight functions over IT resources by:

- Focusing information resource planning to support their strategic missions;
- Implementing a capital planning and investment control process that links to budget formulation and execution; and
- Rethinking and restructuring the way they do their work before investing in IT.

FITARA, enacted on December 19, 2014, augments the Clinger-Cohen Act's mandates by aiming to help increase transparency and visibility around IT spending and improve collaboration and information sharing between Federal entities. FITARA contains specific requirements related to:

- Agency Chief Information Officer (CIO) authority enhancements;
- Enhanced transparency and improved risk management in IT Investments;
- Portfolio review;

⁵ Congressional Budget Justification, FY 2018, provided FY 2017 enacted amounts for Administrative Expense-Information Technology.

⁶ FITARA - Federal Information Technology Acquisition Reform Act. 12/19/2014. Title VIII, Subtitle D of the National Defense Authorization Act (NDAA) for Fiscal Year 2015, Public Law No: 113-291.

- Federal Data Center Consolidation Initiative, which implements a data center consolidation inventory and optimization strategy;
- Expansion of IT acquisition training to Federal acquisition specialists and use of IT skilled personnel in the acquisition of IT and IT related acquisitions;
- Maximizing the benefit of the Federal Strategic Sourcing Initiative, which provides guidance for the purchase of services and supplies; and
- Governmentwide Software Purchasing Program.

The Corporation is not one of the CFO Act agencies required to implement FITARA. However, the Corporation is one of the “other Executive Branch agencies” that OMB encouraged to implement FITARA. OMB M-15-14 encourages such agencies to adopt specific controls for the management of IT from the “Common Baseline for IT Management” which covers the following sections: (1) budget formulation, (2) budget execution, (3) acquisition and (4) organization and workforce (henceforth referred to as “OMB M-15-14 Common Baseline”). In doing so, the Common Baseline provides a framework for agencies to implement the specific authorities that FITARA provides for agency CIOs and builds upon their responsibilities as outlined in the Clinger-Cohen Act.

2. BACKGROUND

FITARA, Public Law 113-291, was enacted on December 19, 2014. FITARA augments the Clinger-Cohen Act to address concerns about waste and ineffectiveness in Federal IT investments. FITARA seeks to combat waste and ineffectiveness through the implementation of a Common Baseline framework for IT management, applying economies of scale and implementation of best practices consistently across the Federal IT acquisition and management environment by:

- Re-emphasizing agency CIO authority and accountability over IT budget planning, formulation, execution, and protection to prevent the reassignment of IT funds to other programs;
- Empowering agency CIOs with new authority over hiring, project funding and approvals, and the delegation of responsibilities to sub-agency CIOs or CIO equivalents;
- Advocating agile/incremental development approaches for new systems to be used instead of traditional “specify in detail up front” approaches;
- Conducting annual reviews to reduce IT redundancies and improve costs, schedules, and outputs;
- Instituting governmentwide software purchasing to leverage centralized buying power and strategic sourcing;
- Centralizing authority over data center consolidation; and
- Developing an IT acquisition workforce with expanded access to specialized, highly skilled program and project managers.

OMB M-15-14 provides specific guidance and includes a Common Baseline of requirements to assist Federal agencies in consistently implementing FITARA. The requirements consist of 26 general requirements (19 are applicable to MCC) and establish, among other things, minimum requirements for roles, responsibilities, and

authorities of agency CIOs, as well as the roles and responsibilities of other applicable senior agency officials. Additionally, it requires Federal agencies to establish specific requirements in the following four areas: (1) budget formulation, (2) budget execution, (3) acquisition, and (4) organization and workforce. The guidance also requires agencies to perform an initial self-assessment to determine their current state in relation to the OMB M-15-14 Common Baseline requirements and to formulate an implementation plan to become compliant with those requirements. See Appendix II for descriptions of the OMB M-15-14 Common Baseline.

3. SUMMARY OF RESULTS

Our audit was performed in accordance with *Government Auditing Standards*, which require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We performed the audit from November 7, 2016 to June 5, 2017.

The objective of this performance audit was to determine whether MCC implemented a framework for the management and oversight of its IT, as prescribed by FITARA. We conducted our audit by comparing the current state of MCC (i.e., its IT management and governance policies, practices, and procedures) to the OMB M-15-14 Common Baseline requirements to identify conformity or gaps in conformity.

We concluded that MCC had not fully implemented a framework for the management and oversight of its IT, as required by OMB M-15-14. Specifically, we found that MCC had implemented only 6 of the 19 applicable requirements contained in the OMB M-15-14 Common Baseline.⁷ However, the Corporation did not implement 13 of the 19 applicable OMB M-15-14 Common Baseline requirements. The 13 gaps identified fall within the four findings listed below:

1. MCC's CIO did not report directly to MCC's Chief Executive Officer (CEO) or deputy CEO as required by OMB M-15-14 and the Clinger-Cohen Act.
2. MCC did not have a corporate-wide glossary of terms that incorporates the definitions of FITARA terms.
3. MCC had not updated its budget policies and procedures to include the CIO's roles and responsibilities.
4. MCC's CIO did not consistently review and approve IT acquisition strategies and plans that originated outside of the Office of the Chief Information Officer (OCIO).

We made seven recommendations to assist MCC in closing the above gaps.

⁷ See detail results in Appendix II – OMB M-15-14 Common Baseline Requirements of this report.

4. DETAILED FINDINGS

FINDING 1 – MCC’s CIO Did Not Report Directly to MCC’s CEO or Deputy CEO as Required by OMB M-15-14 and the Clinger-Cohen Act.

OMB M-15-14, Section B, Sub-section Q1, “CIO reports to agency head (or deputy/Chief Operating Officer (COO)),” states:

The CIO shall report directly to such agency head to carry out the responsibilities of the agency under this subchapter.

The Clinger-Cohen Act (44 U. S. C. § 3506) states:

The head of each agency shall designate a Chief Information Officer who shall report directly to such agency head to carry out the responsibilities of the agency under this subchapter.

Brown & Company inquired with MCC management, reviewed its organizational chart, and noted that the CIO did not report directly to the CEO or deputy CEO, as required by the OMB M-15-14 Common Baseline requirement and the Clinger-Cohen Act. Instead, MCC’s organizational chart showed that the CIO has an indirect reporting relationship with the CEO. The CIO reported to the Vice President, Acquisition and Finance, who reported to the Chief of Staff. Therefore, the CEO did not supervise the CIO, conduct the CIO’s performance evaluation, or delegate and assign tasks directly to the CIO.

MCC’s current organizational reporting structure undermines the CIO’s mandate to actively oversee and guide the Corporation’s IT functions effectively, efficiently, and timely. Such a reporting structure may create delays in making critical IT and IT-related business decisions to align IT with the Corporation’s strategic priorities.

The Office of Acquisition and Finance contends that there is a dotted line in MCC’s organizational chart that signifies the CIO’s direct access to the CEO. Brown & Company’s position, however, is that the dotted line on MCC’s organization chart creates discretionary access to the CEO as opposed to a direct reporting relationship. Direct reporting, as required by the Clinger-Cohen Act, is more than discretionary linkage between the CEO and CIO. It relates to direct supervision, which includes performance evaluations, goal setting, delegating, and task assignments. There is no direct reporting relationship when an official other than the CEO is responsible for conducting the CIO’s performance evaluation, and delegating and assigning tasks to the CIO.

Elevating the CIO’s position to report directly to the CEO will increase the CIO’s visibility and authority to effectively drive information technology changes throughout the Corporation. It will also help the CIO to successfully provide oversight of the Corporation’s IT portfolio.

RECOMMENDATION 1

We recommend that the Millennium Challenge Corporation's Chief Executive Officer restructure the Corporation's organizational structure for the Chief Information Officer to report directly to the Corporation's Chief Executive Officer or his/her deputy as required by the Clinger-Cohen Act.

FINDING 2 – MCC Did Not Have a Corporate-Wide Glossary of Terms That Incorporates the Definitions of FITARA Terms.

FITARA adopted the definitions of "IT" and "IT resources" found in the Clinger-Cohen Act of 1996 (40 U.S.C. § 11101–11704),⁸ which requires all Federal agencies to adopt these definitions consistently. OMB M-15-14, Section A, "Defining the Scope of Resources Related to IT," adopted the definitions of these terms with no change. It states that IT resources include all:

- A. Agency budgetary resources, personnel, equipment, facilities, or services that are primarily used in the management, operation, acquisition, disposition, and transformation or other activity related to the IT lifecycle;
- B. Acquisitions or interagency agreements that include IT and the services or equipment provided by such acquisitions or interagency agreements; but
- C. Does not include grants to third parties that establish or support IT not operated directly by the Federal Government.

Further, that memorandum defines IT as:

- A. Any services or equipment, or interconnected system(s) or subsystem(s) of equipment, that is/are used in the automatic acquisition, storage, analyses, evaluation, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information by the agency; where
- B. Such services or equipment are "used by an agency" if used by the agency directly or if used by a contractor under a contract with the agency that requires either use of the services or equipment or requires use of the services or equipment to a significant extent in the performance of a service or the furnishing of a product.
- C. The term IT includes computers, ancillary equipment (including imaging peripherals, input, output, and storage devices necessary for security and surveillance); peripheral equipment designed to be controlled by the central processing unit of a computer, software, firmware, and similar procedures, services (including provisioned services such as cloud computing and support services that support any point of the lifecycle of the equipment or service); and related resources.

⁸ Clinger-Cohen Act (40 U.S.C. §§ 11101-11704) available at <http://www.gpo.gov/fdsys/pkg/USCODE-2013-title40/html/USCODE-2013-title40-subtitleIII.htm>.

- D. The term IT does not include any equipment that is acquired by a contractor incidental to a contract that does not require use of the equipment.

Brown & Company reviewed MCC’s supporting documents and inquired with MCC management on the existence of a corporate-wide glossary of key terms and definitions. More specifically, Brown & Company inquired if MCC adopted the definitions of IT and IT resources, as prescribed by the Clinger-Cohen Act and OMB M-15-14, and noted that MCC did not have a glossary of key terms and definitions. Furthermore, Brown & Company noted that MCC had not adopted the definitions of IT and IT resources consistent with the Clinger-Cohen Act and OMB M-15-14.

Not having a corporate-wide glossary of key terms and definitions, and not having definitions of IT and IT resources that are consistent with the Clinger-Cohen Act and OMB M-15-14 requirements, cause misinterpretation and misunderstanding. For example, failure to adopt the OMB M-15-14 definitions could exclude some IT resources from being classified as IT assets, potentially causing MCC to be inconsistent with governmentwide definitions. In addition, by not being consistent with the governmentwide definitions, MCC’s information may not be complete if, for example, OMB or other external parties try to determine the amount of IT across the Federal government.

The Corporation did not adopt the Clinger-Cohen Act definitions of IT and IT resources because officials were unaware of the need to do so, and had not included them in the Corporation’s policies.

RECOMMENDATION 2

We recommend that the Millennium Challenge Corporation’s Chief Executive Officer create a corporation-wide glossary of key terms and definitions, which incorporates fully the definitions of “information technology” and “information technology resources consistent with the Clinger-Cohen Act and Office of Management and Budget Memorandum M-15-14, “Management and Oversight of Federal Information Technology.”

FINDING 3 – MCC Had Not Updated Its Budget Policies and Procedures to Include the CIO’s Roles and Responsibilities.

Public Law 113-291, Subtitle D (FITARA), 40 U.S.C. § 11319 (b)(1) states:

- (A) The head of each covered agency ... shall ensure that the CIO of the agency has a significant role in—(i) the decision processes for all annual and multi-year planning, programming, budgeting and execution decisions.
- (B) (i) That the Chief Information Officer of each covered agency ... approve the information technology budget request of the covered agency.

OMB M-15-14, Section B, *Common Baseline for IT Management and CIO Assignment Plan, Budget Formulation and Planning* requires the following:

- The CFO and CIO jointly define the level of detail with which IT resource levels are described distinctly from other resources throughout the planning, programming, and budgeting stages.
- CIO have a role in pre-budget submission for programs that include IT and [IT resources].
- CIO have a role in planning program management.
- CIO reviews and approves major IT investment portion of budget request.
- CIO have an ongoing engagement with program managers.
- CIO defines IT processes and policies.

Based on our inquiry with MCC's management and review of MCC's *Budget Formulation Policy and Procedure Manual*, and *Budget Execution and Funds Control Policies and Procedures*, both dated August 2010, we determined that MCC had gaps in meeting the OMB M-15-14 Common Baseline requirements for "Budget Formulation and Planning." Specifically, MCC's budget-related policies and procedures did not fully document the CIO's roles and responsibilities for:

- Defining the level of detail with which IT resource levels are described distinctly from other resources throughout the planning, programming, and budgeting stages.
- Participating in the pre-budget submission and budget development process for programs that include IT resources (not just programs that are primarily IT oriented).
- Reviewing and approving major IT investment portions of budget requests.
- Approving the IT components of any plans and planning for IT resources at all points in their lifecycle, including operations and disposition or migration.
- Establishing and maintaining a process to regularly engage with program managers to evaluate IT resources supporting each agency strategic objective.
- Defining the development processes, milestones, review gates, and the overall policies for all capital planning, enterprise architecture, and project management and reporting for IT resources.

Furthermore, there was no standard policy requiring program officers to submit their IT budget for the CIO's input, review, and approval. Consequently, program managers were not required to seek the CIO's advice when making IT-related investment decisions.

Although MCC is within a group of agencies that are encouraged to apply the OMB M-15-14 Common Baseline requirements, it is not one of the executive CFO agencies required to implement FITARA and comply with OMB M-15-14. Therefore, MCC did not conduct an agency-wide self-assessment that identified its current conformity with or gaps in conformity with the OMB M-15-14 Common Baseline requirements. Also, MCC did not prepare a FITARA implementation plan, as prescribed by OMB M-15-14

guidelines. Had these items been prepared, MCC would have identified the need to update its budget policies and procedures to include the CIO's roles and responsibilities.

The lack of corporate-wide, consistent IT governance policies and procedures could lead to inconsistent and chaotic IT governance, waste, abuse, and inefficiencies. Additionally, since the CIO had no authority over the acquisition and management of IT resources for the entire Corporation, the Corporation had no accountable office or officer over such resources.

RECOMMENDATION 3

We recommend that the Millennium Challenge Corporation's Chief Executive Officer perform a corporation-wide self-assessment using Office of Management and Budget Memorandum M-15-14, "Management and Oversight of Federal Information Technology," implementation guidance for the Federal Information Technology Acquisition Reform Act.

RECOMMENDATION 4

We recommend that the Millennium Challenge Corporation's Chief Executive Officer prepare a Federal Information Technology Acquisition Reform Act implementation plan, as prescribed by the Office of Management and Budget Memorandum M-15-14, "Management and Oversight of Federal Information Technology."

RECOMMENDATION 5

We recommend the Millennium Challenge Corporation's Chief Executive Officer update the agency's budget formulation and planning policies and procedures to include the Chief Information Officer's roles, responsibilities, and requirements found in the Office of Management and Budget Memorandum M-15-14, "Management and Oversight of Federal Information Technology," Common Baseline requirements.

FINDING 4 – MCC's CIO Did Not Consistently Review and Approve IT Acquisition Strategies and Plans That Originated Outside of the OCIO.

Public Law 113-291, Subtitle D (FITARA), 40 U S C. § 11319 (b)(1)(C)(i)(1), states:

In general, a covered agency... (I) may not enter into a contract or other agreement for IT or IT services unless the contract or other agreement has been reviewed and approved by the CIO of the agency.

In addition, FITARA implementation guidance, OMB M-15-14 "Section B, Subsection K1, CIO Role/Responsibility: CIO Review and Approval of Acquisition Strategy and Acquisition Plan," states:

Agencies shall not approve an acquisition strategy or acquisition plan (as described in FAR Part 7) or interagency agreement (such as those used to

support purchases through another agency) that includes IT without review and approval by the agency CIO. For contract actions that contain IT without an approved acquisition strategy or acquisition plan, the CIO shall review and approve the action itself. The CIO shall primarily consider the following factors when reviewing acquisition strategies and acquisition plans:

- Appropriateness of contract type;
- Appropriateness of IT related portions of statement of needs or Statement of Work (SOW);
- Appropriateness of the above with respect to the mission and business objectives supported by the IT strategic plan; and
- Alignment with mission and program objectives in consultation with program leadership.

Brown & Company inquired with MCC management to determine if the CIO is required to approve all IT contracts, IT acquisition strategies and plans, and interagency agreements. We reviewed supporting documentation and noted that the CIO reviews IT cost estimates; acquisition strategies and plans; and IT contracts, including interagency agreements that originate from the IT department. However, the CIO did not always review and approve IT acquisition strategies and plans, including IT contracts and interagency agreements that originated outside of the OCIO. Those items were often reviewed on an ad hoc basis at the discretion of the program office. In addition, MCC did not require the CIO to review and approve all agreements for IT goods or services before they were awarded. These issues are due to MCC not having formal written policies and procedures requiring CIO approval of all IT acquisition strategies and plans.

Without the CIO's review and approval of all IT acquisition strategies or plans, MCC increases the risk that its IT acquisitions will not align with the Corporation's mission and program objectives to optimize and reduce its IT-related equipment and infrastructure.

RECOMMENDATION 6

We recommend that the Millennium Challenge Corporation's Chief Executive Officer update the Corporation's information technology acquisition strategy procedures to include a requirement for the Chief Information Officer to review and approve all information technology cost estimates and information technology acquisition strategies and plans.

RECOMMENDATION 7

We recommend that the Millennium Challenge Corporation's Chief Executive Officer implement policies and procedures requiring the Chief Information Officer to review and approve all agreements for the acquisition of information technology goods and services before they are awarded.

5. EVALUATION OF MANAGEMENT COMMENTS

We provided a draft report to MCC for their comment. Although officials have not yet made management decisions on the recommendations, they said that they welcome them and have begun to take actions, which are consistent with FITARA requirements.

Please see Appendix III – Management Comments for MCC’s comments.

6. APPENDIX I – PURPOSE, OBJECTIVE, SCOPE AND METHODOLOGY

PURPOSE

MCC's Office of Inspector General engaged Brown & Company to evaluate MCC's implementation of FITARA.

OBJECTIVE

The objective of this performance audit was to determine whether MCC implemented a framework for management and oversight of its IT, as prescribed by FITARA.

Specifically, we:

- Assessed whether MCC implemented a framework for management and oversight of its IT, as identified in OMB M-15-14; and
- Performed a gap analysis to determine whether MCC has implemented the requirements, as prescribed by OMB M-15-14 Common Baseline.

SCOPE

The scope of our audit included a review of IT strategic and operational plans, management policies, procedures, processes, and practices for IT investments, and IT governance and control practices to determine whether MCC implemented the framework for management and oversight of its IT, as identified in OMB M-15-14.

Brown & Company reviewed policy documents, operating procedures available internally and publicly, and inquired with key management personnel to conduct the audit. The audit fieldwork was performed at MCC's headquarters in Washington, D.C., from November 7, 2016 through June 5, 2017.

METHODOLOGY

The methodology of this audit is based on *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that Brown & Company plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the procedures used and the evidence obtained provides a reasonable basis for Brown & Company's findings and conclusions based on our audit objective. The audit procedures included:

- Interviewing key personnel and reviewing policies and operating procedures to assess whether effective internal control over compliance with laws and regulations was maintained in all material respects, by:
 - Gaining an understanding of internal control over compliance,
 - Evaluating management's assessment of internal control,

- Testing the design and operating effectiveness of internal control over compliance, and
- Performing such other procedures as we considered necessary to assess the existence and operating effectiveness of internal control in this circumstances;
- Interviewing key personnel with respect to IT management activities and related governance models;
- Reviewing key documents including the IT plans, committee structures, meeting minutes, relevant policies, and directives;
- Evaluating internal control over the implementation of FITARA to meet the audit objective; and
- Reporting the results and findings.

To test whether MCC implemented FITARA and OMB M-15-14 requirements in the management and oversight of its IT investments, under the direction of MCC's Office of Inspector General, Brown & Company judgmentally selected three of six systems from the MCC information system inventory list as of June 15, 2016.

1. MCC Management Information System (MIS);
2. MCC Collaborate; and
3. MCC Finance Investment and Trade (FIT).

Since the samples selected were widely used application systems with significant investments, the test results had sufficient coverage to make a conclusion without the need for extrapolating the sample test results to the population. Because we used a judgmental sample, the results cannot be projected to the population.

Internal Control

As part of our audit, we considered internal controls that were significant to the audit objectives. The results of our audit include deficiencies in internal control over the implementation of FITARA.

Criteria

The criteria used for this audit included:

- Federal Information Technology Acquisition Reform Act, December 19, 2014,
- Office of Management and Budget (OMB) M-15-14, "Management and Oversight of Federal Information Technology," dated June 10, 2015, and
- Clinger Cohen Act of 1996.

7. APPENDIX II – OMB M-15-14 COMMON BASELINE REQUIREMENTS

Brown & Company compared MCC's actions to implement FITARA against the applicable OMB M-15-14 Common Baseline requirements and identified the following gaps.

| No. | Section | OMB M-15-14 Common Baseline For IT Management and CIO Assignment Plan | Audit Results |
|-----|---------------------|---|---|
| | A | Defining the Scope of Resources Related to Information Technology | |
| 1 | | "Information technology resources" includes all: A. Agency budgetary resources, personnel, equipment, facilities, or services that are primarily used in the management, operation, acquisition, disposition, and transformation, or other activity related to the lifecycle of information technology; B. Acquisitions or interagency agreements that include information technology and the services or equipment provided by such acquisitions or interagency agreements; but C. Does not include grants to third parties, which establish or support information technology not operated directly by the Federal Government. | Identified Gap in Conformity; See Finding 2. |
| | B | Implementation of the Common Baseline | |
| 2 | Subsection A | A1. Visibility of IT resource plans/decisions to CIO. The CFO and CIO jointly shall define the level of detail with which IT resource levels are described distinctly from other resources throughout the planning, programming, and budgeting stages. | Identified Gap in Conformity; See Finding 3. |
| 3 | Subsection B | B1. CIO role in pre-budget submission for programs that include IT and overall portfolio. The agency head shall ensure the agency-wide budget development process includes the CFO, Chief Acquisitions Officer (CAO), and CIO in the planning, programming, and budgeting stages for programs that include IT resources (not just programs that are primarily IT oriented). | Identified Gap in Conformity; See Finding 3. |

| No. | Section | OMB M-15-14 Common Baseline For IT Management and CIO Assignment Plan | Audit Results |
|-----|--------------|--|---|
| 4 | Subsection C | C1. CIO role in planning program management. The CIO shall be included in the internal planning processes for how the agency uses IT resources to achieve its objectives. The CIO shall approve the IT components of any plans, through a process defined by the agency head that balances IT investments with other uses of agency funding. This includes CIO involvement with planning for IT resources at all points in their lifecycle, including operations and disposition or migration. | Identified Gap in Conformity; See Finding 3. |
| 5 | Subsection D | D1. CIO reviews and approves major IT investment portion of budget request. CIO reviews and approves major IT investment portion of budget request. Agency budget justification materials in their initial budget submission to OMB shall include a statement that affirms: – the CIO has reviewed and approved the major IT investments portion of the budget request. | Identified Gap in Conformity; See Finding 3. |
| 6 | Subsection E | E1. Ongoing CIO engagement with program managers. The CIO should establish and maintain a process to regularly engage with program managers to evaluate IT resources supporting each agency strategic objective. | Identified Gap in Conformity; See Finding 4. |
| 7 | Subsection F | F1. Visibility of IT planned expenditure reporting to CIO. The CIO of the agency has a significant role in the decision processes for all annual and multi-year planning, programming, budgeting, and execution decisions. | Conforms |
| 8 | Subsection G | G1. CIO defines IT processes and policies. The CIO defines the development processes, milestones, review gates, and the overall policies for all capital planning, enterprise architecture, and project management and reporting for IT resources. | Identified Gap in Conformity; See Finding 4. |
| 9 | Subsection H | H1. CIO role on program governance boards. The CIO shall be a member of governance boards that include IT resources. | Conforms |
| 10 | Subsection I | I1. Shared acquisition and procurement responsibilities. The CIO reviews all cost estimates of IT related costs and ensures all acquisition strategies and acquisition plans that include IT apply adequate incremental development principles. | Identified Gap in Conformity; See Finding 3 and Finding 4. |
| 11 | Subsection J | J1. CIO role in recommending modification, termination, or pause of IT projects or initiatives. The CIO may recommend to the agency head the | Conforms |

| No. | Section | OMB M-15-14 Common Baseline For IT Management and CIO Assignment Plan | Audit Results |
|-----|---------------------|--|---|
| | | modification, pause, or termination of any acquisition, investment, or activity that includes a significant IT component based on the CIO's evaluation, within the terms of the relevant contracts and applicable regulations. | |
| 12 | Subsection K | K1. CIO review and approval of acquisition strategy and acquisition plan. Agencies shall not approve an acquisition strategy or acquisition plan (as described in FAR Part 724) or interagency agreement (such as those used to support purchases through another agency) that includes IT without review and approval by the agency CIO. | Identified Gap in Conformity; See Finding 3. |
| 13 | Subsection L | L1. CIO approval of reprogramming. The CIO must approve any movement of funds for IT resources that requires Congressional notification. | Identified Gap in Conformity; See Finding 3. |
| 14 | Subsection M | M1. CIO approves bureau CIOs. The CIO shall be involved in the recruitment and shall approve the selection of any new bureau CIO (includes bureau leadership with CIO duties but not title). | Conforms |
| 15 | Subsection N | N1. CIO role in ongoing bureau CIOs' evaluations. The Chief Human Capital Officer (CHCO) and CIO shall jointly establish an agency-wide critical element (or elements) included in all bureau CIOs' performance evaluations. | Not applicable to MCC's business process. |
| 16 | Subsection O | O1. Bureau IT Leadership Directory. CIO and CHCO will conduct a survey of all bureau CIOs, and CIO and CHCO will jointly publish a dataset identifying all bureau officials with title of CIO or duties of a CIO. | Not applicable to MCC's business process. |
| 17 | Subsection P | P1. IT Workforce. The CIO and CHCO will develop a set of competency requirements for IT staff, including IT leadership positions, and develop and maintain a current workforce planning process. | Conforms |
| 18 | Subsection Q | Q1. CIO reports to agency head (or deputy/COO). As required by the Clinger Cohen Act and left in place by FITARA, the CIO "shall report directly to such agency head to carry out the responsibilities of the agency under this subchapter." | Identified Gap in Conformity; See Finding 1. |
| | C | Transparency, Risk Management, Portfolio Review, and Reporting | |
| 19 | 1 | Standardized cost savings metrics and performance indicators. Part of the Integrated Data Collection (IDC) reporting requirements. | Not applicable to MCC's business process. |

| No. | Section | OMB M-15-14 Common Baseline For IT Management and CIO Assignment Plan | Audit Results |
|-----|----------|---|---|
| | | Sharing with the public and Congress, as required by the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235). | |
| 20 | 2 | Monthly reporting. Covered agencies shall continue to provide updates of risks, performance metrics, project, and activity data for major IT investments to the Federal IT Dashboard (ITDB) as soon as the data becomes available, or at least once each calendar month. Data improvement program. If OMB or the agency CIO determines data reported to the ITDB is not timely and reliable, the CIO (in consultation with the agency head) must notify OMB through the IDC and establish within 30 days of this determination an improvement program to address the deficiencies. | Not applicable to MCC's business process. |
| 21 | 3 | Covered agencies shall hold PortfolioStat sessions on a quarterly basis with OMB, the agency CIO, and other attendees. | Not Applicable to MCC's business process. |
| | D | Federal Data Center Consolidation Initiative (FDCCI) | |
| 22 | 1 | Covered agencies shall prepare and provide to OMB comprehensive data center inventories. | Conforms |
| 23 | 2 | Covered agencies shall provide multi-year strategies to consolidate and optimize data centers (Phase 1) and provide quarterly updates regarding phase one of FDCCI. | Not applicable to MCC's business process. |
| | E | Information Technology Acquisition Initiatives | |
| 24 | 1 | IT Acquisition Cadres. FITARA's requirements for IT acquisition cadres builds upon OMB's Office of Federal Procurement Policy (OFPP) July 2011 memorandum on building specialized IT acquisition cadres. As originally required by the memorandum, <i>Acquisition Workforce Development Strategic Plan for Civilian Agencies - FY 2010 - 2014</i> of October 27, 2009, civilian CFO Act agencies shall continue to send their annual <i>Acquisition Human Capital Plans</i> to OMB OFPP. | Not applicable to MCC's business process. |
| 25 | 2 | Category Management and the Federal Strategic Sourcing Initiative (FSSI). Agencies will be required to comply with an upcoming new rule regarding purchases of services and supplies of types offered | Identified Gap in Conformity; See Finding 3 and Finding 4. |

| No. | Section | OMB M-15-14 Common Baseline For IT Management and CIO Assignment Plan | Audit Results |
|-----|---------|---|---|
| | | under an FSSI agreement without using an FSSI agreement. | |
| 26 | 3 | Governmentwide Software Purchasing Program and Category. The General Services Administration (GSA), in collaboration with OMB, shall create, and allow agencies access to, governmentwide enterprise software licenses through new awards as part of category management. | Identified Gap in Conformity; See Finding 3 and Finding 4. |

8. APPENDIX III – MANAGEMENT COMMENTS



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

MEMORANDUM

DATE: February 12, 2018

TO: Alvin Brown
Deputy Assistant Inspector General for Audit
Office of Inspector General
United States Agency for International Development

FROM: Cynthia Huger /s/
Vice President and Chief Financial Officer
Department of Administration and Finance
Millennium Challenge Corporation

SUBJECT: MCC's Management Response to the Draft Report, "*MCC Could Improve Its Information Technology Governance to Conform to FITARA*" dated December 22, 2017

The Millennium Challenge Corporation (MCC) appreciates the opportunity to review the draft report titled "*MCC Could Improve Its Information Technology Governance to Conform to FITARA*", dated December 22, 2017.

Although MCC is not required to implement FITARA, I welcome the recommendations that are included in this audit, and which will help us to assess whether there are opportunities for us to improve our information technology governance processes. I will ensure that incoming senior leadership, including MCC's new Chief Executive Officer, once appointed, receives the recommendations contained in the report for their review. I am also pleased to inform you that MCC is already undertaking the following actions, which are consistent with FITARA requirements:

- Developing an agency-wide glossary of key terms and definitions, which incorporates the Clinger-Cohen Act's definitions of "information technology resources" and "information technology."
- Performing an agency-wide self-assessment using the FITARA implementation guidelines in Office of Management and Budget (OMB) M-15-14.
- Revising the MCC's budget formulation and planning procedures to include the chief information officer (CIO)'s roles, responsibilities, and requirements found in OMB M-15-14.
- Including a requirement for the CIO to review and approve all information technology cost estimates and information technology requests and requirements.

If you have any questions or require any additional information, please contact me at 202-521-3563 or Hugerc@mcc.gov; or Jude Koval, Director of Internal Controls and Audit Compliance (ICAC), at 202-521-7280 or Kovaljg@mcc.gov.

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