

Report No. D-2010-001

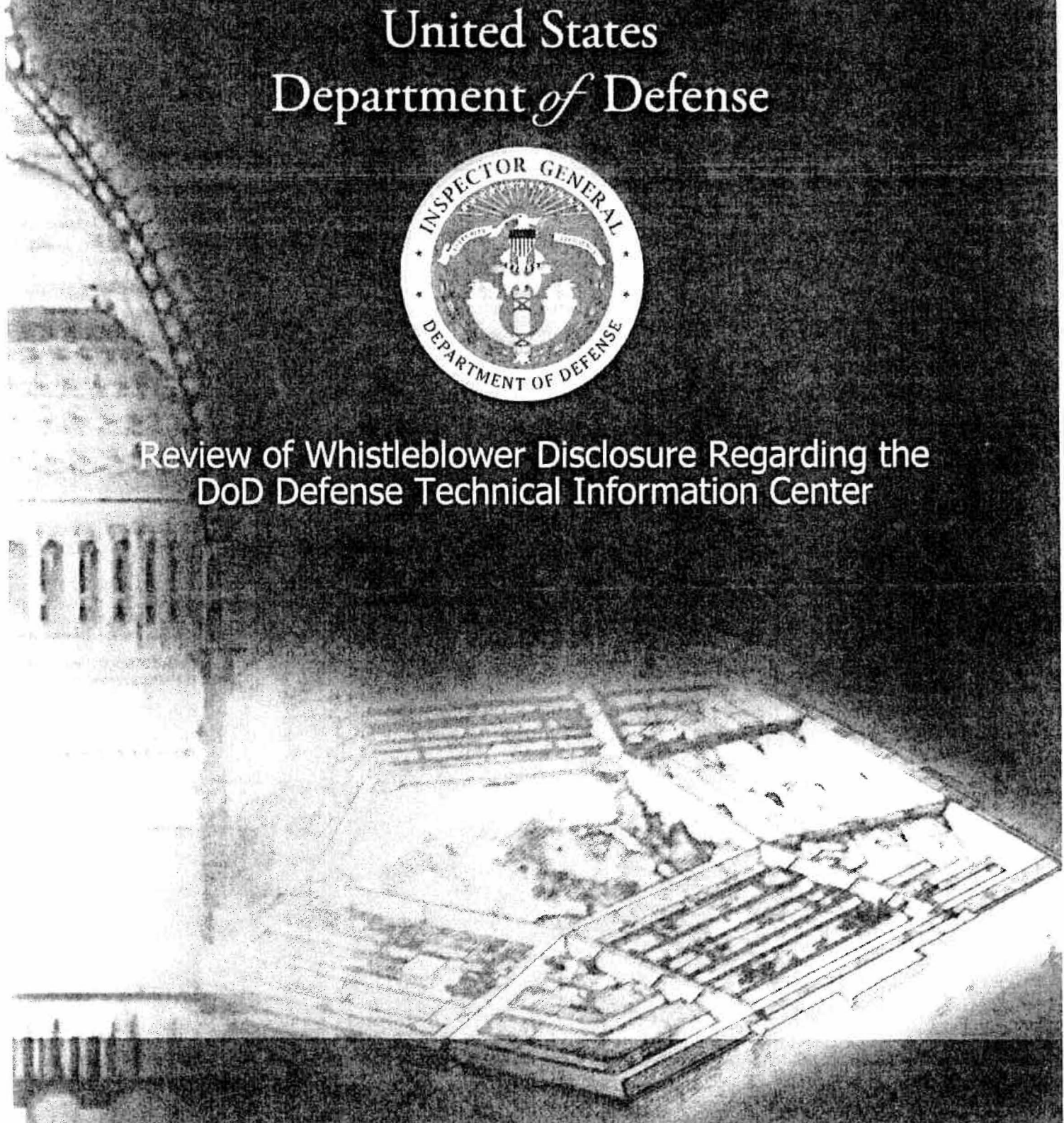
October 9, 2009

Inspector General

United States
Department of Defense



Review of Whistleblower Disclosure Regarding the
DoD Defense Technical Information Center



Additional Information

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Business Operations, prepared this report. If you have questions, contact the signer of the report.

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Acronyms and Abbreviations

ASD(NII)/DOD(CIO)	Assistant Secretary of Defense (Networks and Information Integration)/DOD Chief Information Officer
CED	Comptroller Executive Dashboard
DDR&E	Director of Defense Research and Engineering
DTIC	Defense Technical Information Center
FMR	Financial Management Regulation
IAC	Information Analysis Center
IT	Information Technology
OMB	Office of Management and Budget
OSC	Office of Special Counsel
SNaP-IT	Select and Native Programming Information Technology System
U.S.C.	United States Code
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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OCT 9 2009

William E. Reukauf
Acting Special Counsel
U.S. Office of Special Counsel
1730 M Street N.W., Suite 218
Washington, D.C. 20036-4505

Re: OSC File No. DI-08-2096

Dear Mr. Reukauf:

We believe the enclosed report satisfies the requirement of section 1213, title 5, United States Code (5 U.S.C. § 1213[d] [2009]). The report is in response to your February 3, 2009, letter to the Secretary of Defense regarding a whistleblower disclosure alleging that employees at the Defense Technical Information Center (DTIC) improperly used fees collected for Information Analysis Center (IAC) programs for functions and activities that were unrelated to the IAC programs. The whistleblower disclosure also alleged that DTIC employees failed to report the IAC monies and implemented faulty policies to justify the misuse of funds. In accordance with 10 U.S.C. § 113, the Secretary of Defense delegated authority to the DOD Inspector General to respond to requests for investigations under 5 U.S.C. § 1213. (Secretary of Defense memorandum, "Delegation of Authority to the Inspector General," February 9, 1998 [copy enclosed]).

The enclosed report addresses the five elements required under 5 U.S.C. § 1213(d) (2009) as follows:

- (1) A summary of the information with respect to how the investigation was initiated. See the Objective and Background section on page 1 of the report.
- (2) A description of how we conducted the investigation. See the Conduct of the Review section on page 14 of the report.
- (3) A summary of any evidence we obtained from the investigation. See the Conduct of the Review section on page 14 of the report.
- (4) A listing of any violation or apparent violation of law, rule, or regulation:
 - Allegation 1. DTIC collected fees in excess of actual costs it incurred, which violated the Economy Act, 31 U.S.C. § 1535, and augmented its budget by not returning surplus reimbursable fees; the allegation was substantiated. See the discussion on page 5 of the report.

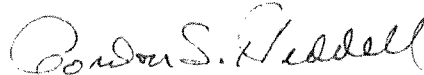
- Allegation 2. DTIC failure to report reimbursable fees; the allegation was not substantiated. See the discussion on page 10 of the report.
- Allegation 3. DTIC failed to report information technology expenditures made with reimbursable fees; the allegation was partially substantiated. See the discussion on page 12 of the report.

(5) A description of any action taken or planned as a result of the investigation, such as changes in agency rules, regulations, or practices: See the Management Action Plans provided by the Office of the Undersecretary of Defense for Acquisition, Logistics, and Technology, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, and the Assistant Secretary of Defense (Networks and Information Integration)/DOD Chief Information Officer. See the Management Action Plan sections for each allegation (pages 8, 11, and 13).

In addition to our initial review on these allegations, the Deputy Inspector General for Administrative Investigations is conducting a separate review to determine whether actions of DTIC senior officials constituted “gross mismanagement and an abuse of authority.” We will provide you the results of that review.

If you have any questions, please contact Mr. John R. Crane at (703) 604-8234.

Sincerely,



Gordon S. Heddell

Enclosures: As stated

cc: Deputy Secretary of Defense



THE SECRETARY OF DEFENSE
WASHINGTON, DC 20301

FEB 9 1998

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Delegation of Authority to the Inspector General

In accordance with the authority contained in Title 10, United States Code (U.S.C.), Section 113, I hereby delegate to the Inspector General, Department of Defense, full power and authority to act for the Secretary of Defense to respond to requests for investigations under Title 5, U.S.C. Section 1213 from the Special Counsel, Office of Special Counsel, relating to allegations of violations of law, gross mismanagement and certain other matters.

The authority delegated herein may not be redelegated.

William A. B...

Table of Contents

Introduction	1
Objectives	1
Background	1
Defense Technical Information Center Profile	2
Allegation 1. Charging Actual Costs	5
Allegation 2. Reporting Reimbursable Fees	10
Allegation 3. Reporting Information Technology Purchases	12
Conduct of the Review	14

Introduction

Objectives

Our objective was to substantiate the validity of allegations that employees at the DOD Defense Technical Information Center (DTIC) improperly used fees collected for Information Analysis Center (IAC) programs for functions and activities that were unrelated to the IAC programs. An additional objective was to determine whether DTIC employees failed to report the IAC monies and implemented faulty policies to justify their alleged misuse of funds. Our specific objectives were to determine whether DTIC:

- violated the Economy Act, section 1535, title 31, United States Code (31 U.S.C. 1535);
- augmented its budget;
- failed to report the reimbursable fees it collected for IAC on the Budget Estimation Submission and Presidents Budget; and
- failed to report Information Technology (IT) purchases made with reimbursable fees on the Select and Native Programming Information Technology System and the DOD Comptrollers Executive Dashboard.

Additionally, we were tasked to report the results of our review to the U.S. Office of Special Counsel (OSC) in accordance with section 1213(d), title 5, United States Code (5 U.S.C. § 1213[d] [2009]). See the Conduct of the Review section for a discussion of the procedures we performed.

Background

On February 3, 2009, the OSC referred allegations to the Secretary of Defense stating that DTIC violated the Economy Act, augmented its budget, did not report its reimbursable fees to oversight entities, and failed to report its IT expenditures. OSC is authorized by 5 U.S.C. § 1213(a) and (b) (2009) to receive disclosures of information from Federal employees alleging violations of law, rule, or regulation, gross mismanagement, gross waste of funds, and abuse of authority, or a substantial and specific danger to public health or safety. When OSC finds that there is a substantial likelihood that one of these conditions exists, it is required to advise the appropriate agency head, and the agency head is required to conduct an investigation of the allegations and prepare a report, pursuant to 5 U.S.C. § 1213(c) and (d) (2009).

In this case, OSC concluded that there was a substantial likelihood that the information provided by a Federal employee disclosed allegations covered by 5 U.S.C. § 1213 (2009), and it referred the matter to the Secretary of Defense for investigation. OSC summarized the whistleblower allegations as follows:

- DTIC did not charge actual costs for the goods and services it provided to DOD organizations and other customers. Therefore, DTIC violated the Economy Act. In addition, DTIC did not return improperly charged reimbursable fees or surpluses to its customers for FY 2007 and FY 2008. Therefore, DTIC augmented its budget.
- DTIC did not report the reimbursable fees it collected on the DOD Budget Estimate Submission or the President's Budget.
- DTIC did not report IT expenditures made with reimbursable fees on the Select and Native Programming Information Technology System (SNaP-IT) and the DOD Comptrollers Executive Dashboard (CED).

The Secretary of Defense delegated his authority to review and sign the report to the DOD Inspector General.

Defense Technical Information Center Profile

On June 4, 2004, DTIC was designated as a DOD Field Activity within the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]), reporting to the Director of Defense Research and Engineering (DDR&E). DTIC's overall mission is to provide a centralized operation for the acquisition, retrieval, and dissemination of technical information to the Defense community through IACs. DTIC is responsible for managing the IAC Program, which consists of 10 different IACs. See Table 1 for a listing of the IACs.

Table 1. Defense Technical Information Center, Information Analysis Centers

Information Analysis Center	Name	Prime Contractor
AMMTIAC	Advanced Materials and Testing	Alion Science and Technology
CBRNIAC	Chemical, Biological, Radiological, and Nuclear	Battelle Memorial
CPIAC	Chemical Propulsion	Johns Hopkins University*
DACS	Data and Analysis Center for Software	ITT
IATAC	Information Assurance	Booz Allen Hamilton
MSIAC	Modeling and Simulation	Alion Science and Technology
RIAC	Reliability	Wyle Labs
SENSIAC	Sensor Technology	Georgia Tech Research Institute*
SURVIAC	Survivability/Vulnerability	Booz Allen Hamilton
WSTIAC	Weapon Systems Technology	Alion Science and Technology

*Academic institutions.

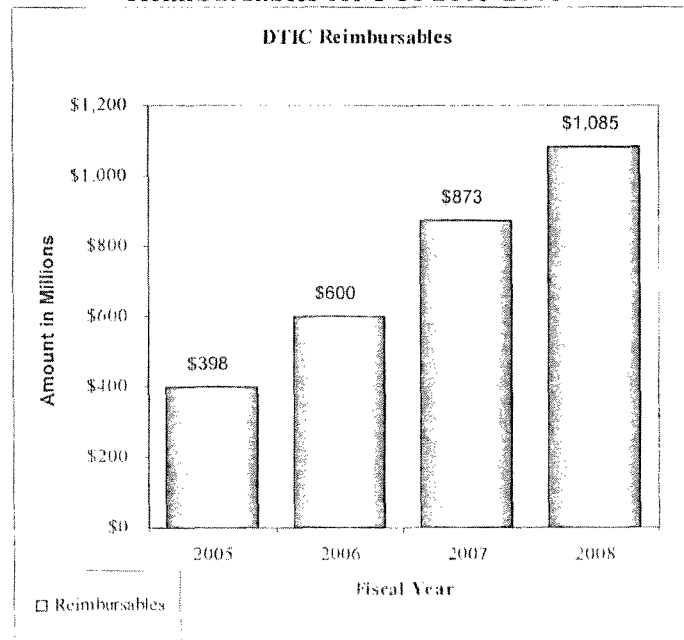
DTIC's workforce consists of both Government and contract personnel with expertise in technical information, IT, and program management. The IAC Program directorate is one of eight DTIC directorates. See Table 2 for a listing of the directorates.

Table 2. Defense Technical Information Center Directorates

Directorate	Name
DTIC-A	Component Information Support
DTIC-B	User Services and Marketing
DTIC-D	Front Office Administration
DTIC-E	Information Science and Technology
DTIC-I	Information Analysis Center Program
DTIC-O	Operations
DTIC-R	Resource Management, Budgeting, and Finances
DTIC-Z	Information Systems

The DTIC IACs' reimbursable work has increased substantially during the past 4 fiscal years. As shown in the figure, in FY 2005, for example, DTIC reimbursables totaled approximately \$398.3 million and have since increased every fiscal year. In FY 2008, DTIC reimbursables totaled \$1.09 billion. DTIC provides its IAC services using a contracting task order called technical area task. DTIC applies a reimbursable fee to each task. The reimbursable fee rate should be set to recover the actual costs to the IACs. During each year, and from year to year, IACs may adjust the reimbursable fee as necessary to recover changes in actual costs. DTIC currently charges its customers a 3.5-percent reimbursable fee on IAC technical area tasks.

Figure. Defense Technical Information Center Reimbursables for FYs 2005-2008



During the 4 fiscal years, DTIC's revenue from the IAC reimbursable fees for technical area tasks, as compared with the total DTIC appropriations and reimbursable fees collected, increased from 19.1 percent to 44.9 percent. Reimbursable fees collected represent a substantial portion of DTIC's total funding. See Table 3 for the amounts and percentages of the reimbursable fees by fiscal year.

Table 3. Reimbursable Fees as a Percentage of Total Funding (in millions)

Item	FY 2005	FY 2006	FY 2007	FY 2008
Fee Collected	\$10.0	\$23.4	\$31.8	\$43.1
Appropriation	\$42.4	\$49.3	\$51.7	\$53.0
Total Funding	\$52.4	\$72.7	\$83.5	\$96.1
Fee as Percentage of Total	19.1%	32.2%	38.1%	44.8%

Allegation 1. Charging Actual Costs

DTIC did not charge actual costs for the goods and services it provided to DOD organizations and other customers. In addition, DTIC did not return improperly charged reimbursable fees or surpluses (IAC monies) to its customers for FY 2007 and FY 2008. Therefore, DTIC violated the Economy Act and augmented its budget.

Response

The allegation was substantiated. We determined that DTIC violated the Economy Act and augmented its budget. DTIC improperly charged indirect costs (overhead) for the goods and services it provided to DOD organizations and other customers in FY 2007 and FY 2008. Furthermore, DTIC collected fees in excess of its actual costs and did not return the surpluses to its customers for FY 2007 and FY 2008. Specifically, DTIC:

- improperly established a reimbursable fee rate,
- did not return surplus reimbursable fees collected to its customers at fiscal year-end,
- improperly charged reimbursable fees to DOD organizations, and
- did not properly use the reimbursable fees collected.

These conditions occurred because DTIC management did not establish a systematic process for accumulating actual indirect costs (overhead) incurred by its IACs. In addition, DTIC did not follow DOD Instruction 4000.19, "Interservice and Intergovernmental Support," August 9, 1995, which states that indirect costs will not be included in reimbursement charges. Furthermore, DTIC did not ensure that actual indirect costs had a significant relationship to providing the goods and services. As a result, DTIC violated the Economy Act and augmented its budget, and DTIC may have overcharged its customers by \$12.1 million in FY 2007 and \$9.7 million in FY 2008.

Reimbursable Fee Rate

DTIC did not properly establish a reimbursable fee rate. Instead, DTIC arbitrarily established reimbursable fee rates based on a spreadsheet that had different revenue scenarios. DTIC referred to the spreadsheet as its "spending plan." The spreadsheet, or spending plan, had a subheading called "Fees Used to Fund DTIC," which listed purchases that benefited all DTIC directorates. These were not fixed purchases, and DTIC adjusted the plans for purchases based on the amount IACs generated from the reimbursable fees. If the IACs generated more reimbursable revenue than expected, DTIC management received more fees and allocated more fee monies to other DTIC directorates. This occurred because DTIC management did not have a systematic process for accumulating actual indirect (overhead) costs incurred by its IACs. Therefore, DTIC was unable to calculate a reimbursable fee rate to apply against its estimated reimbursable work. Specifically, DTIC did not accumulate actual indirect cost in a cost pool to calculate a reimbursable fee rate at the beginning of each fiscal year that recovers the IAC Program's actual costs for the fiscal year. In addition, DTIC did not periodically

review the reimbursable fee rate throughout the fiscal year and adjust the rate as necessary. Furthermore, DTIC did not return reimbursable fee surpluses to its customers.

Section 1535, title 31, United States Code, the Economy Act, is the principal statutory authority for one Federal agency to pay another Federal agency for goods or services. The Economy Act states:

Payments may be made in advance or on providing the goods or services and shall be for any part of the estimated or actual cost as determined by the agency or unit filling the order.... Proper adjustment of amounts paid in advance shall be made as agreed to by the heads of the agencies or units on the basis of the actual cost of goods or services provided.

DOD Regulation 7000.14-R, "DOD Financial Management Regulation," (DOD FMR), volume 11A, chapter 1, "General Reimbursement Procedures and Supporting Documentation," states that if an organization has a significant amount of reimbursable effort, such costs are accumulated in a cost pool and allocated to customers. Indirect costs are sometimes referred to as overhead or general and administrative costs, which consist of costs that cannot readily or directly be identified in the performance of the customer order. Examples of such indirect costs are supervision, office supplies, utility costs, and similar costs. Volume 11A, chapter 1, also requires indirect costs, such as supervision, office supplies, utility costs, and similar costs, to be accumulated in a cost pool.

DOD FMR, volume 11A, chapter 3, "Economy Act Orders," February 2008, implements the Economy Act for DOD. Chapter 3 states that actual costs include all direct costs attributable to providing the goods or services and that benefit the requesting agency.

Charging Cost to DOD Organizations

DTIC improperly charged reimbursable fees to DOD organizations. Specifically, DTIC improperly charged indirect costs to DOD organizations through the use of its reimbursable fee rate. DOD Instruction 4000.19 states that indirect costs will not be included in reimbursement charges. DOD FMR, volume 11A, chapters 1 and 3, state that DOD organizations not funded by working capital funds normally do not charge indirect costs to other DOD organizations. DTIC did not provide any documentation permitting it to charge DOD organizations for indirect costs (overhead). The DOD FMR does not provide adequate guidance on whether DOD organizations may charge indirect costs (overhead) to other DOD organizations. Specifically, the DOD FMR is unclear on how the term "normally" is defined. The various DOD organizations may interpret these chapters differently.

Use of Fees

DTIC did not properly use reimbursable fees collected. We reviewed DTIC purchases made in FY 2007 and FY 2008 for hardware, software, and services using IAC reimbursable fees to verify their existence and determine whether the purchases had a significant relationship to the IACs. Specifically, we selected a non-statistical sample of

fee purchases from DTIC's spreadsheets, "All Other Directorates Unfunded Investment Opportunities (UIO)" for FY 2007 and FY 2008. These spreadsheets list DTIC purchases that benefit all of DTIC rather than the individual IACs. DTIC adjusts these purchases based on the amount of reimbursable fees generated by the IACs. Table 4 shows the number of items reviewed, the universe, and the dollar amount of our sample for FY 2007 and FY 2008.

Table 4. Sample of Purchases Made With Information Analysis Center Fees

Fiscal Year	Number of Reviewed Items	Total Items	Reviewed Amount (in millions)
2007	22	63	\$9.5
2008	18	90	\$4.0
Total	40	153	\$13.5

None of the purchases we reviewed had a significant relationship with the IACs. DTIC should not have purchased these 40 purchases with IAC fees totaling \$13.5 million. For example, in FY 2007, DTIC purchased communication services, which consisted of cell phones, telephones, and phone services; voicemail; Internet services, and 186 software licenses for use in all DTIC directorates. In FY 2008, DTIC purchased 400 antivirus subscriptions for use in all DTIC directorates, 162 computer monitors to replace existing monitors in almost all directorates, and 2 microfiche scanners for use in DTIC's Operations directorate.

This occurred because DTIC management did not ensure that actual indirect costs (overhead) had a significant relationship to providing the goods or services. DTIC internal business rules stated that if a purchase benefits DTIC's IT infrastructure, then it should be 100-percent funded by reimbursable fees. General support for DTIC and the IACS is 50-percent funded by reimbursable fees. However, DTIC internal business rules did not provide adequate guidance for determining whether a planned purchase had a significant relationship to providing the goods or services.

DOD FMR, volume 11A, chapter 3, implements the Economy Act for DOD. Volume 11A, chapter 3 states that actual costs include all direct costs attributable to providing the goods or services. Actual costs include indirect costs (overhead) to the extent they have a significant relationship to providing the goods or services and benefit the requesting agency.

The Defense Information Systems Agency General Counsel⁴ agreed with this interpretation of the Economy Act. On April 3, 1998, the General Counsel gave DTIC management a legal opinion through the Defense Information Systems Agency Comptroller, stating that the Economy Act requires indirect costs to the performing

⁴In 1998, DTIC was part of the Defense Information Systems Agency and received legal support from its General Counsel office.

agency to have a significant relationship to providing the goods and services to the requesting agency. The opinion also stated that the focus of the Economy Act is on the specific unit performing the services rather than on the larger organization to which the performing unit belongs. The opinion concluded that each IAC is a performing unit for Economy Act purposes even though all are under DTIC. Furthermore, General Counsel stated that DTIC could not use the fees collected to support one IAC's costs to support another IAC's costs.

Economy Act, Budget Augmentation, and Reimbursable Fees

Because DTIC did not charge actual costs for the goods and services it provided to DOD organizations and other customers, DTIC violated the Economy Act and augmented its budget. For example, DTIC overcharged its customers by \$12.1 million and \$9.7 million in FY 2007 and FY 2008, respectively. These overcharge amounts represent the amounts of purchases we reviewed for FY 2007 and FY 2008 (\$9.5 million and \$4 million, respectively) that did not have a significant relationship with the IACs, plus the surpluses DTIC had at the end of each fiscal year. DTIC had surpluses of \$2.6 million and \$5.7 million at fiscal year-end for FY 2007 and FY 2008, respectively.

In addition, the remaining purchases and amounts of \$3.6 million and \$13.9 million on DTIC's FY 2007 and FY 2008 spreadsheets, "All Other Directorates Unfunded Investment Opportunities (UIO)," may represent additional overcharges. DTIC officials confirmed that the spreadsheets represented purchases for all other directorates. However, because we performed a limited review, we did not test all purchases to determine whether they had a significant relationship to the IACs.

DTIC augmented its budget by collecting fees for more than its actual costs and by not returning surpluses to its customers at fiscal year-end. The U.S. Government Accountability Office, Office of the General Counsel, "Principles of Federal Appropriation Law," third edition, volume II, page 162, February 2006 (Red Book), states as a general principle that an agency may not augment its appropriations from outside sources without specific statutory authority. If an agency gets additional funding from another source without specific statutory authority, it has more budget authority than the funding level Congress appropriated for those purposes during that time. When an agency operates beyond its appropriated funding level with funds derived from another source, the agency is circumventing congressional budget controls. DTIC has been circumventing Congress' role and budget controls by obtaining excess funds without congressional approval.

Management Action Plan

1. The USD(AT&L) and DDR&E will require DTIC to establish an IAC Reimbursable Review Board. The products required of the IAC Reimbursable Review Board will be approved by USD(AT&L) and DDR&E and coordinated as appropriate with the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO). The IAC Reimbursable Review Board will be required to:

- Establish a process for creating a fixed reimbursable rate for each fiscal year, and provide annually the details and justification for the reimbursable rate.
- Obtain written concurrence from the DOD General Counsel that the plan is consistent with statutory and regulatory guidance. In addition, the USD(AT&L) and DDR&E will request that the DOD General Counsel provide dedicated legal counsel to DTIC to ensure they are complying with all existing laws and regulations.
- Establish a timeline for providing documentation annually to USD(AT&L) and DDR&E for the comparison of collected reimbursable fees to the actual costs incurred.
- Provide the USD(AT&L) and DDR&E its plans for determining and returning surplus fees that align with multi-year Research, Development, Testing, and Evaluation requirements.
- Review items for allowability and annually assess the relationship between core DTIC activities and IAC activities.
- Coordinate with the USD(C)/CFO for a review of budgeting method models for DTIC and the IACs, including direct funding and working capital funds. Specifically, coordinate with the USD(C)/CFO to ensure that the most effective structure is in place for the current DTIC mission and it complies with all existing laws and regulations.

2. The USD(C)/CFO will update the DOD FMR Chapters 1 and 3 to clarify when a DOD organization, performing under the Economy Act authority, is permitted to charge indirect costs to other DOD organizations.

Allegation 2. Reporting Reimbursable Fees

DTIC did not report reimbursable fees that it collected on the DOD Budget Estimate Submission or the President's Budget as required.

Response

The allegation was not substantiated. We determined that DTIC did report total reimbursables on the Budget Estimate Submission and the President's Budget. However, we also determined that DTIC was not required to report reimbursable fees, separately from the total reimbursables on the Budget Estimate Submission and the President's Budget.

Background

DTIC reimbursables were \$873 million in FY 2007 and \$1.1 billion in FY 2008 (as shown in the figure on page 3). DTIC reimbursable fees in FY 2007 and FY 2008 were \$31.8 million and \$43.1 million, respectively. Table 5 provides the amount of reimbursable fees DTIC collected in FY 2007 and FY 2008 from DOD and other organizations.

Table 5. Reimbursable Fees DTIC Collected From DOD and Other Organizations

Organization	FY 2007	FY 2008
Army	\$8,296,067	\$9,881,247
Navy	6,890,956	7,031,105
Air Force	7,415,523	6,296,097
NSA	150,247	1,038,909
Marine Corps	683,114	908,504
DISA	633,396	722,472
Joint Staff	336,545	685,876
Coast Guard	196,277	626,882
DTRA	158,853	230,939
OSD	67,478	216,306
Other DOD	5,210,638	12,727,360
Other Government and Industry	1,735,633	2,689,123
Total	\$31,774,727	\$43,054,820

Reporting of Reimbursable Fees

Office of Management and Budget (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget," November 14, 2008, provides guidance for agencies in preparing and submitting their budget. DOD FMR, volume 2A, "Budget Formulation and Presentation," implements the OMB guidance on formulating and submitting budget requests to the Secretary of Defense for review, presentation, and justification of DOD's program and budget requests submitted to Congress. However, neither OMB Circular A-11 nor DOD FMR, volume 2A, provide any guidance for separately reporting reimbursable fees. Specifically, they do not require that reimbursable fees be reported for DTIC or any other DOD organization on the DOD Budget Estimate Submission and President's Budget. We confirmed our understanding with USD(C)/CFO staff. DTIC reported its reimbursables on the President's Budget. However, the President's Budget is at the budget account level only, which is a higher-level presentation of summary data. Although DTIC's reimbursable fees are included within the reimbursables total in the President's Budget, they are not presented separately. Therefore, DTIC's reimbursables and reimbursable fees are not readily visible as separate data.

As a result, the USD(C)/CFO was unaware that DTIC had collected approximately \$31.8 million and \$43.1 million in reimbursable fees for FY 2007 and FY 2008, respectively. In addition, the increase in reimbursable fees from \$10 million in FY 2005 to \$43.1 million in FY 2008 went unnoticed. Additionally, the increase of DTIC fees from 19.1 percent of DTIC total funding in FY 2005 to 44.9 percent in FY 2008 also went unnoticed. Furthermore, the USD(C)/CFO lacked the necessary data to perform management oversight and make informed budget decisions. If USD(C)/CFO had required the reporting of reimbursable fees, it would have detected these unusual conditions and alerted DOD management. USD(C)/CFO officials stated that their office relies on the USD(AT&L) to monitor DTIC reimbursable fees and to ensure that DTIC acts in accordance with the Economy Act.

Management Action Plan

1. The USD(C)/CFO will update the DOD FMR to require organizations to report reimbursable fees within reimbursable authority.
2. The USD(C)/CFO will review DTIC reports detailing the calculation of the reimbursable rate at the beginning of each fiscal year and the periodic comparisons of the collected reimbursable fees to the actual costs to determine whether any adjustments to the reimbursable rate are necessary.

Allegation 3. Reporting Information Technology Purchases

DTIC did not report information technology (IT) expenditures made with reimbursable fees in the Select and Native Programming Information Technology System (SNaP-IT) or to the DOD Comptroller's Executive Dashboard (CED).

Response

The allegation was partially substantiated. DTIC did not report IT expenditures made with reimbursable fees in the Select and Native Programming Information Technology System (SNaP-IT). However, we also determined that SNaP-IT does not require or allow users to report IT expenditures made with non-appropriated funds. In addition, we determined that DTIC was not required to report IT expenditures made with reimbursable fees to the DOD CED.

Reporting Information Technology Expenditures

DTIC did not report IT expenditures made with reimbursable fees in SNaP-IT. For example, in FY 2007, DTIC did not report \$353,000 in costs to acquire local area network equipment. In FY 2008, DTIC did not report \$100,000 in server acquisition costs in SNaP-IT.

OMB Circular A-11 requires agencies to report all IT investments. These include the total investment costs of the entire risk-adjusted life cycle of each system and include all budgetary resources. This allows OMB and an agency to review and evaluate the agency's IT spending and to compare IT spending across the Federal Government. DOD FMR, volume 2B, chapter 18, "Information Technology," implements OMB Circular A-11.

DOD uses SNaP-IT to implement OMB's reporting requirements. Specifically, DOD FMR, volume 2B, chapter 18, states that Assistant Secretary of Defense (Networks and Information Integration)/DOD Chief Information Officer [ASD(NII)/DOD(CIO)] and the Deputy Assistant Secretary of Defense (Resources) use SNaP-IT to collect IT expenditure data and generate reports mandated by OMB and Congress. The Deputy Assistant Secretary (Resources) is responsible for SNaP-IT. The system is a database application used to plan, coordinate, edit, publish, and disseminate IT budget justification books required by OMB and Congress. SNaP-IT generates all forms, summaries, and pages used to complete the publishing of the IT Congressional Justification materials and OMB submissions.

However, SNaP-IT does not allow users, such as DTIC, to report IT spending funded by reimbursable fees. Therefore, some DOD IT expenditures are not counted and reported to OMB. As a result, DOD and OMB cannot review and evaluate DTIC's IT spending and compare it with IT spending across the Federal Government or provide a full and accurate accounting of agencies' IT investments.

The DOD CED is an information system interface, which employs metrics as a tracking tool that the USD(C)/CFO uses to monitor DOD's financial performance. USD(C)/CFO determines high priority goals and uses the DOD CED to track those goals. Past audit findings heavily influence the metrics that the DOD CED measures. Reimbursable fees and IT expenditures made with those fees are not included in these goals. As a result, we determined that DTIC was not required to report its reimbursable fees or IT purchases made with those fees to the DOD CED.

Management Action Plan

The ASD(NII)/DOD(CIO) will conduct a study to determine the extent that Defense agencies purchase IT using reimbursable fees and do not report the spending to OMB. If other Defense agencies are purchasing IT with reimbursable fees and the amounts are material, ASD NII/DOD CIO will develop a process to report these IT purchases to OMB. If the amounts are immaterial, they will request a waiver from OMB.

Conduct of the Review

We conducted this review from February 2009 through September 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the objectives.

We limited our review to substantiating the validity of the whistleblower allegations at DTIC during FY 2007 and FY 2008. We referred other matters to the Deputy Inspector General for Administrative Investigations. To substantiate the validity of the whistleblower allegations at DTIC, we performed procedures such as the following.

- We interviewed the DTIC whistleblower to confirm our understanding of the allegations and obtain detailed knowledge of DTIC operations.
- We reviewed the February 3, 2009, OSC letter to the Secretary of Defense and its attachments.
- We reviewed the Economy Act, OMB guidance, and DOD FMR.
- We interviewed DTIC employees to obtain an understanding of DTIC policy and procedures for charging indirect costs (overhead) for the goods and services it provided to DOD organizations and other customers.
- We reviewed DTIC procedures for calculating the reimbursable fee rate and the list of reimbursable revenue and fees we received from DTIC.
- We non-statistically sampled and analyzed IAC fee expenditures for FY 2007 and FY 2008 to determine whether the DTIC purchases had a significant relationship to the IACs. Our analysis included interviewing DTIC management and staff to verify the purpose of the hardware, software, or service contract they purchased to determine whether it had a significant relationship to the IACs. We also verified the existence of the sampled purchases.
- We met with USD(C)/CFO staff to determine whether DTIC reported the reimbursable fees on the DOD Budget Estimate Submission and President's Budget.
- We met with the ASD(NII)/DOD(CIO) staff to determine whether DTIC reported IT expenditures on SNaP-IT.

We issued to DOD management a draft report for discussion and a draft report ("Review of Defense Technical Information Center Internal Controls," September 4, 2009) for management comments. The draft reports presented the results of our review of the allegations. Furthermore, we met and discussed the results of our review and our draft report with DOD management to obtain their management action plan. Specifically, we met and spoke with representatives from the USD(AT&L), DDR&E, USD(C)/CFO, and ASD(NII)/DOD(CIO). This report ("Review of Defense Technical Information Center Internal Controls," October 9, 2009) provides the results of our review and of our discussions with the DOD representatives and their Management Action Plans.



Inspector General Department of Defense

