
May 7, 2004



Information Technology

Reporting of DoD Capital
Investments for Information
Technology
(D-2004-081)

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Acronyms

IT	Information Technology
OMB	Office of Management and Budget



INSPECTOR GENERAL
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May 7, 2004

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF DEFENSE (NETWORKS
AND INFORMATION INTEGRATION)

SUBJECT: Reporting of DoD Capital Investments for Information Technology
(Report No. D-2004-081)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Deputy Assistant Secretary of Defense (Resources) did not address Recommendation 2. Therefore, we request that the Deputy Assistant Secretary of Defense (Resources) comment on this recommendation by June 7, 2004.

If possible, please provide management comments in electronic format (Adobe Acrobat file only). Send electronic transmission to the e-mail addresses cited in the last paragraph of this memorandum. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact me at (703) 604-8966 (DSN 664-8966) (kmtruex@dodig.osd.mil) or Mr. Stephen J. Bressi at (703) 604-9026 (DSN 664-9026) (sbressi@dodig.osd.mil). See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:


Mary L. Ugone
Assistant Inspector General
for Acquisition Management

Office of the Inspector General of the Department of Defense
Reporting of DoD Capital Investments
for Information Technology

Executive Summary

Who Should Read This Report and Why? DoD managers preparing and certifying capital investment justifications for information technology should read this report to improve the quality of data being submitted by the Assistant Secretary of Defense (Networks and Information Integration) to the Office of Management and Budget and Congress.

Background. Information technology is a President's Management Agenda priority for expanding electronic government. Also, Congress has expressed concerns on how DoD manages information technology because of reports that it considered inaccurate, misleading, or incomplete. In FY 2004, DoD budgeted \$27.9 billion for information technology.

Results. DoD Capital Investment Reports submitted to the Office of Management and Budget and Congress for information technology assets did not consistently demonstrate that information supporting the budget justifications were directly connected to the DoD strategic plan and would provide a positive return on investment; sound acquisition planning; comprehensive risk mitigation and management planning; realistic cost and schedule goals; and measurable performance benefits. Although the Assistant Secretary of Defense (Networks and Information Integration) made changes to the automated database system for Component reporting of information technology investments, DoD guidance needs to be modified to make Component Chief Information Officers and Chief Financial Officers more accountable for submitted data. When certified Capital Investment Reports for information technology are forwarded to the Assistant Secretary of Defense (Networks and Information Integration), the submissions should be complete and accurate and in compliance with the Clinger-Cohen Act and Office of Management and Budget Circular A-11. Also, provisions should be made in the DoD guidance for nonconforming investments. (See the Finding section of the report for the detailed recommendations.)

Management Comments and Audit Response. The Deputy Comptroller (Program/Budget) concurred with the finding and recommendations, and the Deputy Assistant Secretary of Defense (Resources) concurred with the first recommendation but did not comment on the second recommendation. Therefore, we request that the Deputy Assistant Secretary of Defense (Resources) comment on this recommendation by June 7, 2004. See the Finding section of the report for a discussion of the management comments and the Management Comments Section of the report for the complete text of the comments.

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Background

DoD Components use information technology (IT) in a wide variety of mission functions including finance, personnel management, computing and communication infrastructure, logistics, intelligence, and command and control. IT consists of any equipment or interconnected system or subsystem of equipment that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information. The President's Management Agenda for expanding electronic government has identified effective planning for IT investments as a priority. In addition, Congress has challenged the quality of DoD IT management because of reports it considered to be inaccurate, misleading, or incomplete. The Assistant Secretary of Defense (Networks and Information Integration), as the Chief Information Officer, is the principal staff assistant for DoD IT. For FY 2004, DoD budgeted \$27.9 billion for IT.

General Accounting Office. The General Accounting Office assessed the funding information in the DoD Information Technology Budget Summary to determine the reliability of the DoD FY 2004 budget submission for IT. Audit Report GAO-04-115, "Improvements Needed in the Reliability of Defense Budget Submissions," December 2003, found that the FY 2004 IT budget submission contains material inconsistencies, inaccuracies, or omissions that limited its reliability. The report made eight recommendations to improve the reliability of future budget submissions and raise the level of management attention on improving reliability and strengthening the management processes and supporting systems.

Objective

The overall audit objective was to verify and validate whether the Services and DoD Components are adequately reporting information technology investments to the Congress and OMB. Specifically, the audit determined whether Exhibit 300 "Capital Asset Plan and Business Case" submissions to OMB and "IT Capital Asset Reports" to Congress demonstrated that DoD is managing its information technology investments in accordance with OMB and DoD guidance. We also reviewed the management control program as it related to the overall objective. See Appendix A for a discussion of the scope and methodology and the review of the management control program.

Completeness of DoD Information Technology Reports

DoD Components did not adequately report information technology investments to Congress and OMB in support of the President's Budget for FY 2004. This condition occurred because Component Chief Information Officers and Chief Financial Officers did not always include required information in submitted reports. Specifically, 170 of 198 Capital Investment Reports submitted to OMB (86 percent) and 182 of 197 Selected Capital Investment Reports submitted to Congress (92 percent) in standard formats did not completely respond to one or more required data elements addressing project management; business case justifications; realistic cost and schedule goals; and measurable performance benefits. Further, the DoD Chief Information Officer did not have effective procedures to compel Component Chief Information Officers and Chief Financial Officers to submit complete and accurate reports. As a result, the quality of DoD information reported to OMB and Congress had limited value and did not demonstrate, in accordance with OMB and DoD guidance, that DoD was effectively managing its \$27.9 billion IT investment for FY 2004.

Guidance

Clinger Cohen Act. Public Law 104-106, "National Defense Authorization Act for Fiscal Year 1996, Division E, Information Technology Management Reform, February 10, 1996, commonly called the "Clinger-Cohen Act," requires effective and efficient capital planning processes for selecting, managing, and evaluating the results of all major investments in IT. The Act requires that executive agencies:

- Establish goals for improving the efficiency and effectiveness of agency operations through the effective use of IT,
- Prepare an annual report, to be included in the executive agency's budget submission to Congress, on the progress in achieving the goals,
- Prescribe performance measurements for IT, and measure how well IT supports agency programs,
- Quantitatively measure agency process performance for cost, speed, productivity, and quality against comparable processes and organizations in the private and public sectors where they exist,

-
- Analyze the missions of the executive agency and, based on the analysis, revise the executive agency’s mission-related processes and administrative processes as appropriate before making significant investments in IT, and
 - Ensure that the IT security policies, procedures, and practices of the executive agency are adequate.

Public Law 107-314. Public Law 107-314, December 2, 2002, section 351, “Annual Submission of Information Regarding Information Technology Capital Assets,” requires the Secretary of Defense to annually submit reports with information justifying investments for IT capital assets that have an estimated annual cost of more than \$10 million. For FY 2004, the Assistant Secretary of Defense (Networks and Information Integration) forwarded 197 Selected Capital Investment Reports to Congress. Appendix B lists, by DoD Component, the number of Selected Capital Investment Reports submitted to Congress.

Office of Management and Budget Circular A-11. Circular A-11, “Preparation, Submission, and Execution of the Budget,” Part 7, Section 300, “Planning, Budgeting, Acquisition, and Management of Capital Assets,” June 2002, implements the Clinger-Cohen Act and establishes policy and procedural guidance for planning, budgeting, acquiring, and managing Federal capital assets. Agencies are required to demonstrate to OMB in semi-annual reports that major IT investments provide a direct connection to agencies’ strategic plans, a positive return on investment, sound acquisition planning, comprehensive risk mitigation and management planning, realistic cost and schedule goals, and measurable performance benefits. For the FY 2004 President’s Budget, the Assistant Secretary of Defense (Networks and Information Integration) forwarded to OMB 198 Capital Investment Reports. Appendix B lists, by DoD Component, the number of Capital Investment Reports submitted to OMB.

DoD Financial Management Regulation. The DoD Financial Management Regulation, 7000.14-R, Volume 2B, Chapter 18, “Information Technology Resources and National Security Systems,” June 2002, requires all Defense Components that have any resource obligations supporting information technology or national security systems to prepare Capital Investment Reports, which are mandated by OMB Circular A-11. This chapter is a collaborative effort between the Under Secretary of Defense Comptroller/Chief Financial Officer and the Assistant Secretary of Defense (Networks and Information Integration) and requires Component Chief Information Officers and Chief Financial Officers to jointly certify that reports are complete, accurate, and consistent with the Clinger-Cohen Act, Paperwork Reduction Act, and other applicable acts and requirements. However, the Regulation does not define other applicable acts and requirements, such as OMB Circular A-11.

Capital Investment Reports to OMB

The IT Capital Investment Reports submitted in support of the President’s Budget for FY 2004 did not demonstrate that DoD was effectively and efficiently

managing IT resources in accordance with OMB Circular A-11, June 26, 2002. Our analysis of 198 reports found that 170 reports (86 percent) contained incomplete information in one or more report sections when compared to criteria in Circular A-11. Information addressing risk management, performance goals, monitoring program progress (Project and Funding Plan), and analyses of alternatives were not provided or were incomplete.

Risk Management. Circular A-11 requires Components to describe the results of risk assessments in 19 prescribed risk areas.¹ However, as shown in Table 1, Components did not address all the risk areas in 124 of the 198 submissions (63 percent) and inconsistencies existed between Components. Those differences, we were told, may have occurred because the Components were confused by the instructions in the June 2002 Circular A-11. Recognizing the inconsistencies, OMB modified its instructions in July 2003.

Table 1. Prescribed Risk Areas Not Completely Addressed

	<u>Number of Incomplete Submissions</u>	<u>Percent</u>
Army	37 of 37	100
Navy	23 of 48	48
Air Force	23 of 33	70
Defense agencies	41 of 80	51

In addition to addressing specific risk areas, Components were also required to provide the date of their risk management plans. However, the dates for 13 of the 198 reported IT investments (7 percent) were omitted because risk management plans had not been developed. Further, two Air Force programs—Regionalization of Civilian Personnel Support and Global Command and Control System Air Force—did not provide any risk management plan information. Also, four Army (11 percent), eight Navy (17 percent), and five Air Force (15 percent) reports did not complete the required OMB matrix that included the risk description, date, probability of occurrence, strategy for mitigation, and current status of each risk area.

Performance Goals and Measures Reported. Circular A-11 requires agencies to complete a matrix for FYs 2002 through 2007 that addresses strategic goals supported by investment’s baselines, planned performance improvement goals, actual performance improvement results, and planned and actual performance metrics. However, as shown in Table 2, DoD Components did not complete the required data elements for 30 of the 198 reports (15 percent). Some reports, such

¹The 19 prescribed risk areas address: schedules, initial costs, life-cycle costs, technical obsolescence, feasibility, system reliability, dependencies and interoperability with other projects, asset protection, future procurements creating a monopoly, agency capability to manage the project, overall risk of project failure, organizational and change management, business, data/information, technology, strategy, security, privacy, and project resources.

as the Navy's Tactical Aircraft Mission Planning System, had missing reporting elements, while others, such as the Defense Information Systems Agency Defense Information Systems Network-Long Haul investment, addressed only one of the required 6 fiscal years. Also, 52 of the 198 reports (26 percent) did not provide information in the prescribed matrix format, thereby making it difficult to determine whether all required information was reported.

Table 2. Performance Goals and Measures Table Elements Not Addressed

	<u>Number of Reports</u>	<u>Percent</u>
Army	2 of 37	5
Navy	20 of 48	42
Air Force	1 of 33	3
Defense agencies	7 of 80	9

Further, the matrix template in the June 2002 Circular A-11 requires that goals and measures reflect performance benefits that can be linked to Components' missions and strategic goals and can be clearly measurable. Performance results that cannot be quantitatively or qualitatively measured should not be reported. However, in 25 of the 198 reports (13 percent), Components provided program schedule performance as a measurement rather than as agency mission or strategic goal performance benefits. Sixteen reports (8 percent) provided goals that were too vague for measuring program benefits, and 20 reports (10 percent) did not include performance metrics for measuring program results.

Analysis of Alternatives Reported. Components did not complete the Analysis of Alternatives section for 99 of 198 Capital Investment Reports (50 Percent). Components either did not respond to requests for information or believed that the Analysis of Alternatives did not apply to specific investments. Table 3 demonstrates the numbers of incomplete submissions and the range of differences among reporting Components.

Table 3. Incomplete Analysis of Alternatives

	<u>Number of Reports</u>	<u>Percent</u>
Army	18 of 37	49
Navy	31 of 48	65
Air Force	23 of 33	70
Defense agencies	27 of 80	34

OMB Circular A-11 requires agencies to identify three alternatives and provide a financial summary of the selected alternative. However, 26 of 198 reports (13 percent) identified less than three alternatives, and 30 of 198 reports (15 percent) did not include the required financial summary. Also, seven reports did not include the required summary of life-cycle costs. Further, rather than

provide information and complete the charts in the required standard format, the Air Force High Performance Computing Modernization Program described its Analysis of Alternatives in a three-page narrative.

The following describes some of the reasons why Components did not comply with Circular A-11 Guidance for Analyses of Alternatives:

- Components believed that Analyses of Alternatives did not apply to 10 investments that were either in the steady state phase of their life cycle or were considered legacy systems. Further, the Air Force stated in its draft “Information Technology Capital Investment Report Preparation Guide,” November 2003, that OMB analysts believed that an Analysis of Alternatives may not be appropriate for systems in steady state. However, OMB Circular A-11 makes no exception for investments in this life-cycle stage when reporting the Analysis of Alternatives.
- The Defense Information Systems Agency believed that an Analysis of Alternatives did not apply to seven investments because DoD did not classify the investments as major automated information systems.² However, Circular A-11 makes no exception for investments that fall below the DoD definition for major automated information systems.
- The Navy did not believe that an Analysis of Alternatives applied to its investments in the Defense Message System and Global Command and Control System because program management was not its responsibility. However, Circular A-11 does not exclude investments that are modules of larger joint programs.
- The Navy also believed that a traditional Analysis of Alternatives did not apply to the Electronic Commerce/Electronic Data Interchange and the Common Access Card pilot project investments because it believed the investments were not capital assets or large-scale system developments. However, Circular A-11 makes no exception for pilot project programs.
- The Army did not conduct an Analysis of Alternatives for its investment in Strategic Command and Control Facilities because DoD requires these facilities throughout the world. However, Circular A-11 makes no exception for worldwide investments.
- The Defense Information Systems Agency did not believe that an Analysis of Alternatives applied to its Common Operating Environment Investment because it is a collection of infrastructure components and not an automated information system. Circular A-11 requires an Analysis of Alternatives for all assets.

²DoD Instruction 5000.2, “Operation of the Defense Acquisition System,” May 12, 2003, requires an Analysis of Alternatives only for Major Defense Acquisition Programs and Major Automated Information Systems.

- The Defense Information Systems Agency did not believe that an Analysis of Alternatives applied to the Command Control Communications and Intelligence Test Certification because the unique function provided by the system was governmental. However, Circular A-11 makes no exception for investments that provide functions that are unique to the Government.

In addition to the exceptions listed above, the Army Installation Information Infrastructure Modernization Program and the Air Force Electronic Commerce Program stated that the analyses were accomplished at various sites and therefore did not provide the Analyses of Alternatives in their submissions. Further, the Army described three types of analyses performed for the Transportation Coordinators' Automated Information for Movement System II, but did not provide alternate solutions with the analyses. Conversely, the Defense Information Systems Agency described alternative solutions for its Global Information Grid Bandwidth Expansion investment, but did not provide any analysis.

Project and Funding Plan. Circular A-11 requires agencies to measure cost and schedule progress in the Project and Funding Plan section of the Capital Investment Report. Further, Circular A-11 requires agencies to use an earned value management system for measuring the progress of development efforts.³ However, Components did not complete the Project and Funding Plan section for 76 of the 198 FY 2004 reports (38 percent). Table 4 shows the number of incomplete reports and the range of differences among reporting components.

Table 4. Incomplete Project and Funding Section

	<u>Number of Reports</u>	<u>Percent</u>
Army	21 of 37	57
Navy	26 of 48	54
Air Force	9 of 33	27
Defense agencies	20 of 80	25

Thirty-five (35) of the 198 reports (18 percent) did not provide information or stated "not applicable" with no further explanations. Missing cost and schedule baselines for comparing actual and planned program results was another reason for incomplete earned value management system information.

Earned Value Management. Circular A-11 requires that earned value management applications be used to determine whether investments in development meet approved cost and schedule goals. Circular A-11 sets no minimum dollar threshold for using earned value management and does not limit

³Circular A-11 excludes investments that are new starts in FY 2004 and investments in the steady state life-cycle phase from its requirement to demonstrate an earned value management system.

the use of earned value management to contractor costs. However, 26 reports for investments in the development phase did not include earned value management information. Program managers submitting eight reports believed that because their investments were below the DoD dollar thresholds for major automated information system acquisitions, they were not required to report cost and schedule progress. Program managers submitting an additional 10 reports believed that earned value management did not apply to their investments because their development contracts were either firm-fixed-price or time-and-materials contracts. An additional manager did not implement earned value management because it was not a contractual requirement.

Cost and Schedule Baselines. Circular A-11 requires Components to include a series of tables in their reports that describe the original and revised cost and schedule baselines and compare the approved baselines to actual performance results for measuring progress. Circular A-11 makes no exceptions. However, in 10 of 198 submissions (5 percent), Components either had not reported established baselines or had not compared baselines to program results. Five Army, one Navy, three Air Force, and one Defense Logistics Agency submission did not provide comparisons for measuring progress.

Applicability of the Project and Funding Plan. Components believed that the Project and Funding Plan section of the FY 2004 Capital Investment Report submissions did not apply to 22 of the 198 investment reports (11 percent). Components submitting 16 reports believed that the section did not apply to them because their programs were in the maintenance or steady state phase of life cycles. However, for these programs, Circular A-11 requires Components to identify the application they will use to perform an operational analysis for demonstrating efficiency and effectiveness.

In addition, the Navy did not believe that the Project and Funding Plan report section for its DoD Teleport Program and Global Command and Control System applied, because the systems were part of larger, joint DoD enterprise programs. However, the Army and Air Force addressed the Project and Funding Plans on their Global Command and Control System reports. Also, the Navy did not consider its Electronic Commerce/Electronic Data Interchange and Common Access Card programs to be capital assets and, as a result, did not provide cost and schedule comparison information for measuring program progress.

Other Areas of Incomplete Reporting. Our review also identified incomplete information reporting in other areas. Those ranged from 2 to 17 percent of the 198 submissions for Enterprise Architecture, Security and Privacy, Acquisition Strategy, Program Justification, Application and Technology, Data and Program Management, and the Government Paperwork and Elimination Act areas.

Selected Capital Investment Reports to Congress

The quality of information that DoD submitted to Congress for FY 2004 also did not demonstrate that DoD Components were adequately managing IT. One hundred and eighty-two (182) of the 197 reports, derived from the same database as the Capital Investment Reports submitted to OMB, contained insufficient information in the required areas of Analysis of Alternatives, Enterprise Architecture, Performance Goals and Measures, Risk Inventory and Assessment, Program/Project Management, Contract/Government Support Information, Project Funding, and Clinger Cohen Compliance.

Analysis of Alternatives. For this area, 47 of the 197 reports (24 percent) did not address Analyses of Alternatives. Program managers believed that the analyses did not apply to their programs because investments were:

- below DoD dollar thresholds for major acquisitions,
- in the steady state life cycle phase,
- a part of a joint DoD enterprise system, or
- made when alternatives did not exist.

In addition to the 47 reports with missing Analysis of Alternatives information, 38 of the 197 reports (19 percent) contained analyses that were incomplete. Reports were:

- missing the required financial summary;
- in progress and partially completed;
- not in the prescribed report format; and
- performed, but results of analyses withheld from reports.

Enterprise Architecture. For this area that describes business function relationships with technologies and information that supports them, 3 of 197 reports (2 percent) were blank and 59 of 197 reports (30 percent) contained incomplete information. Ten reports submitted by Components stated that investments were weapons and tactical systems and not business systems and therefore they did not have to provide information for the area. Also, 17 Army and 4 Defense Finance and Accounting Service reports did not fully explain how their investments related to their enterprise architectures. Further, nine Army submissions provided insufficient report information to determine business function relationships with technologies and supporting information.

Performance Goals and Measures Reported to Congress. For this area that links annual performance plans to measurable goals, 5 of 197 reports (3 percent) were blank and 58 of 197 reports (29 percent) were partially complete. Strategic goals, existing baselines, planned performance improvement goals, actual

performance improvement results, planned performance metrics, and actual performance metric results were missing from the submissions. Further, 18 Air Force, 3 Defense Finance and Accounting Service, and 2 U.S. Transportation Command investments measured performance in terms of time rather than goals. Twenty (20) Air Force, and 2 Defense Finance and Accounting Service investments did not report planned performance metrics. Six investments were not submitted in the required format and six investments reported insufficient performance goal information for measuring progress.

Risk Inventory and Assessment Reported to Congress. For this area discussing eight types of risk, 4 of 197 reports (2 percent) that required dates of identification, descriptions, probabilities of occurrence, strategies for mitigation, and current status were completely blank, and 95 of 197 reports (48 percent) contained incomplete information. Also, areas of risk either were not reported or not rated, and Components had no risk plans. Twenty-two (22) Army, 15 Air Force, 2 U. S. Transportation Command, 2 Defense Logistics Agency, 2 Office of Secretary of Defense, and 1 Defense Finance and Accounting Service submission did not provide information addressing the eight required risk areas. Also, some Component investment reports replaced the eight standard types of risk with their own areas of risk and added models to evaluate them.

Contract-Government Support Reported to Congress. For this area requiring Components to submit contract numbers, types of contracts, prime contractors' names and addresses, and brief descriptions of the contracts, 16 of 197 reports (8 percent) were completely blank and 38 of 197 reports (19 percent) contained insufficient information. Types of contracts were omitted, required report tables were not complete, and contract numbers were missing. Further, reasons were not given for six Army and seven Air Force reports omitting contract types.

Program-Project Management. Twelve (12) of 197 reports (6 percent) did not provide complete information addressing program managers, integrated project teams, and related skill sets. Nine Air Force reports and one Army report did not identify related skill set information. The Defense Information Systems Agency submitted a report for Command, Control, Communications, and Intelligence Test Certification that did not provide program management information and no project manager or integrated project team was identified for the Defense Logistics Agency's Defense Fuels Automated Management System.

Project Funding. For this area that compares baselines with actual results, 22 of 197 reports (11 percent) were completely blank and 61 of 197 reports (31 percent) contained incomplete information. The Defense Logistics Agency believed that its Joint Total Asset Visibility Program was not required to provide a comparison of baselines to results because it was a Special Interest Program and therefore did not need traditional acquisition documents. Other reasons for incomplete responses included programs in the steady state life-cycle stage, non-major acquisition programs, and baselines that were not established or with variances of less than 10 percent. In addition, one Navy and three Army reports did not cite reasons justifying why Project Funding was not applicable to their investments.

Clinger-Cohen Act Compliance. For this area that reports the dates and status of the certifications of compliance with the Clinger-Cohen Act, 80 of 197 reports

(41 percent) were missing and 86 of 197 (44 percent) contained incomplete information. Reasons for the missing and incomplete information varied, such as that certifications were being processed or certifications did not apply to the project. The Defense Logistics Agency believed that compliance with the Clinger-Cohen Act did not apply to three mature systems and one new start. Also, the U.S. Transportation Command believed that the requirement for Clinger-Cohen certification did not apply to one new start. Further, although the U.S. Transportation Command stated that seven of its nine reported investments were compliant, it did not provide certification dates. Also, the TRICARE Management Agency substituted internal management control processes for certifications of its smaller investments rather than applying the Clinger-Cohen criteria.

Certification of Reports

The DoD Financial Management Regulation's certification requirement for IT Capital Investment Reporting is not linked to Circular A-11 policies and procedures. As a result, Component Chief Information Officers and Chief Financial Officers certified reports that did not comply with OMB Circular A-11. Further, the Financial Management Regulation does not require Component Chief Information Officers and Chief Financial Officers to explain why reports are incomplete.

The Army certified that its Capital Investment Reports to OMB were prepared, reviewed, and submitted in accordance with the DoD Financial Management Regulation. However, our review of these submissions found that required information was missing or incomplete for all 37 Army reports when compared to Circular A-11 reporting requirements. Also, the Defense Information Systems Agency certified that its reports were prepared in accordance with reporting requirements. However, our review of these submissions found that required information was missing or incomplete for 18 of 19 Capital Investment Report Submissions to OMB when compared to Circular A-11 reporting requirements. Further, the Navy did not submit a certification for its Capital Investment Report to the Office of Assistant Secretary of Defense (Networks and Information Integration) for FY 2004.⁴

Conclusion

The quality of reported IT information submitted to Congress and OMB for FY 2004 did not consistently demonstrate that Components were effectively managing IT capital assets. Information was incomplete and was not directly connected to the Component or the DoD strategic plan, a positive return on investment, sound acquisition planning, comprehensive risk mitigation and management planning, realistic cost and schedule goals, and measurable

⁴According to officials in the Office of Assistant Secretary of Defense (Networks and Information Integration).

performance benefits. Although reasonable explanations existed for some missing and incomplete data, this rationale could not be applied systemically for the majority of missing or incomplete information responses.

The Assistant Secretary of Defense (Networks and Information Integration) recognized that IT reporting needs to be improved. DoD invested more than \$1 million in a database system to compile and report IT business case information and incorporated database automated management control features for reviewing and tracking IT budget submissions for FY 2005.⁵ However, DoD also needs to ensure that Component Chief Information Officers and Chief Financial Officers submit complete and accurate IT information to the Assistant Secretary of Defense (Networks and Information Integration) for forwarding to Congress and OMB in accordance with the Clinger-Cohen Act and OMB Circular A-11. Also, for nonconforming investments, Component Chief Information Officers and Chief Financial Officers should justify why OMB Circular A-11 information reporting requirements could not be completed.

Recommendations, Management Comments and Audit Response

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, in coordination with the Assistant Secretary of Defense (Networks and Information Integration), improve the quality of information technology reporting to Congress and the Office of Management and Budget by:

1. Modifying the DoD Financial Management Regulation 7000.14-R, Volume 2B, Chapter 18, "Information Technology Resources and National Security Systems," June 2002, Paragraph 180102 to link information report certifications submitted by Component Chief Information Officers and Chief Financial Officers to policy and procedural guidance required by Office of Management and Budget Circular A-11.

2. Requiring justifications for investments that do not conform to Office of Management and Budget policy and procedural guidance.

Deputy Comptroller (Program/Budget) Comments. The Deputy Comptroller (Program/Budget) concurred with the finding and recommendations and stated that the recommendations will be addressed in the update of the DoD Financial Management Regulation in May or June 2004.

Deputy Assistant Secretary of Defense (Resources) Comments. The Deputy Assistant Secretary of Defense (Resources) concurred with Recommendation 1. The Deputy Assistant Secretary of Defense (Resources) stated that the next change to the DoD Financial Management Regulation 7000.14-R, Volume 2b,

⁵According to officials in the Office of Assistant Secretary of Defense (Networks and Information Integration).

Chapter 18 would link information report certifications to the procedural guidance required by OMB Circular A-11.

Audit Response. We consider the planned changes to the Financial Management Regulation by the Deputy Comptroller (Program/Budget) and the Deputy Assistant Secretary of Defense (Resources) to be responsive. However, the Deputy Assistant Secretary of Defense (Resources) did not address Recommendation 2. Therefore, we request that the Deputy Assistant Secretary of Defense (Resources) comment on this recommendation by June 7, 2004.

Appendix A. Scope and Methodology

We examined all 198 Capital Investment Reports that DoD submitted to the Office of Management and Budget and all 197 Selected Capital Investment Reports that DoD submitted to Congress for the FY 2004 President's Budget. We evaluated the reporting process and the completeness of information for each report based on report preparation guidance from OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," June 2002, and the DoD Financial Management Regulation 7000.14-R, Volume 2B, Chapter 18, "Information Technology Resources and National Security Systems," June 2002. We also reviewed relevant documents addressing report submissions from August 1996 through September 2003.

We met with officials who were responsible for preparing and submitting DoD IT budget data and business case reports within the Army, Navy, Air Force, Defense Information Systems Agency, Defense Logistics Agency, and Office of the Assistant Secretary of Defense (Health Affairs). We also met with the analyst responsible for IT budget reports within the Office of the Assistant Secretary of Defense (Networks and Information Integration) to gain an overall understanding of the IT budget process. We also met with General Accounting Office personnel who were responsible for Audit Report GAO-04-15, "Improvements Needed in the Reliability of Defense Budget Reports," December 2003.

This audit was performed from July 2003 through February 2004 in accordance with generally accepted government auditing standards.

Changes in Audit Scope. We expanded the audit scope as a result of the "Bob Stump National Defense Authorization Act for Fiscal Year 2003" that mandated Selected Capital Investment Reports for DoD IT. Further, we reduced our audit scope to the information quality of report submissions as a result of the General Accounting Office Audit Report GAO-04-15, "Improvements Needed in the Reliability of Defense Budget Reports," December 2003.

Use of Computer-Processed Data. We did not use computer processed data to perform this audit.

Use of Technical Assistance. We did not use technical assistance to perform this audit.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of DoD IT management.

Management Control Program Review

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

Scope of the Review of the Management Control Program. We reviewed the adequacy of management controls to ensure the accuracy and completeness of reports to OMB and Congress on capital investments for information technology.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Instruction 5010.40. IT capital asset report submissions to OMB and Congress for FY 2004 did not demonstrate that DoD was effectively managing IT investments. Although the Office of the Assistant Secretary of Defense (Networks and Information Integration) had enhanced reporting oversight by integrating control features into its IT management database system, accountability controls still needed to be improved to ensure that information submissions are complete, accurate, and prepared in accordance with the Clinger-Cohen Act and OMB Circular A-11 guidance. If implemented, the recommendations to modify the DoD Financial Management Regulation will correct the identified weakness. We will provide a copy of this report to the senior official responsible for management controls in the Office of Secretary of Defense.

Adequacy of Management’s Self-Evaluation. Self-evaluation of management controls does not apply because this audit does not address a specific DoD program or Component.

Prior Coverage

GAO Report Number GAO-04-115, “Improvements Needed in the Reliability of Defense Budget Submissions,” December 2003

Appendix B. Number of FY 2004 Information Technology Reports by DoD Component

DoD Component	Capital Investment Reports Submitted to OMB ¹	Selected Capital Investment Reports Submitted to Congress
Army	37	36
Navy	48	47
Air Force	33	33
American Forces Information Service	1	1
Defense Commissary Agency	1	1
Defense Contract Management Agency	1	1
Defense Finance and Accounting Service	17	17
Defense Human Resource Activity	4	4
Defense Information Systems Agency	19	19
Defense Logistics Agency	9	9
Defense Security Service	1	1
Office of the Secretary of Defense	8	9
TRICARE	10	10
United States Transportation Command	9	9
Totals	198	197

¹ President's Budget Submission

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Assistant Secretary of Defense (Networks and Information Integration)
Director, Program Analysis and Evaluation

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Chief Information Officer, Department of the Army
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Chief Information Officer, Department of the Navy
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Chief Information Officer, Department of the Air Force
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Under Secretary of Defense Comptroller Comments



COMPTROLLER
Program/Budget)

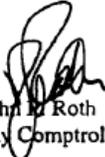
OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

APR 27 2004

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Reporting of Capital Investments for Information Technology
(Project No. D2003AL-0147)

We have reviewed the subject audit report and concur with its findings and recommendations. Ongoing update of the Department of Defense (DoD) Financial Management Regulation (FMR) 7000.14-R, Volume 2B, Chapter 18, "Information Technology Resources and National Security Systems will address the recommendations included in the audit report. Update of the FMR is anticipated in the May/June 2004 timeframe.


John E. Roth
Deputy Comptroller

Assistant Secretary of Defense (Networks and Information Integration) Comments



NETWORKS AND INFORMATION
INTEGRATION

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

April 26, 2004

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Reporting of DoD Capital Investments for Information
Technology (Project No. D2003AL-0147)

This office has reviewed the draft report and agrees with its recommendation that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, in coordination with the Assistant Secretary of Defense (Networks and Information Integration), improve the quality of information technology reporting to Congress and the Office of Management and Budget.

A change will be initiated in the next update of the DoD Financial Management Regulation 7000.14-R, Volume 2B, Chapter 18, "Information Technology Resources and National Security Systems," June 2002, Paragraph 180102 to link information report certifications submitted by Component Chief Information Officers and Chief Financial Officers to policy and procedural guidance required by Office of Management and Budget Circular A-11.

My point of contact for this action is Ms. Bonnie Hammersley, (703) 695-3937,
<mailto:bonnie.hammersley@osd.mil>.

Handwritten signature of Cheryl J. Roby in cursive.

Cheryl J. Roby
Deputy Assistant Secretary of Defense
(Resources)



Team Members

The Office of the Deputy Inspector General for Auditing of the Department of Defense, Acquisition Management prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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