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Review of Defense Technical Information Center Internal Controls

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Acronyms and Abbreviations

ASD(NII)/CIO	Assistant Secretary of Defense (Networks and Information Integration)/Chief Information Officer
DOD FMR	DOD Financial Management Regulation
DTIC	Defense Technical Information Center
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
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
USD(C)/CFO	Under Secretary of Defense (Comptroller)/ Chief Financial Officer
U.S.C.	United States Code



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

December 3, 2009

MEMORANDUM FOR DEPUTY SECRETARY OF DEFENSE
UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF DEFENSE (LEGISLATIVE
AFFAIRS)
ASSISTANT SECRETARY OF DEFENSE (NETWORKS AND
INFORMATION INTEGRATION)
DEPARTMENT OF DEFENSE GENERAL COUNSEL

SUBJECT: Review of Defense Technical Information Center Internal Controls
(Report No. D-2010-023)

We are providing this report for your information and use. We performed the audit in response to a request made by the Office of Special Counsel. We considered management comments on a draft of the report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DOD Directive 7650.3 and left no unresolved issues. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations



Results in Brief: Review of Defense Technical Information Center Internal Controls

What We Did

The U.S. Office of Special Counsel referred whistleblower allegations to the Secretary of Defense. The Secretary delegated his responsibility to the DOD Inspector General. Our objective was to substantiate the validity of the allegations and report the results in accordance with section 1213(d), title 5, United State Code.

What We Found

The following conditions require management attention. DTIC:

- Improperly charged indirect costs to its customers in FY 2007 and FY 2008. As a result, DTIC violated the Economy Act, augmented its budget, and may have overcharged its customers by \$12.1 million in FY 2007 and \$9.7 million in FY 2008.
- Did not report reimbursables and reimbursable fees separately on any Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO) management reports. As a result, the USD(C)/CFO was unaware that DTIC collected approximately \$31.8 million and \$43.1 million in reimbursable fees for FY 2007 and FY 2008, respectively.
- Did not report Information Technology (IT) expenditures made with reimbursable fees in the Select and Native Programming Information Technology System (SNaP-IT).

What We Recommend

We recommend that the USD(C)/CFO revise the DOD Financial Management Regulation (FMR) to state when an organization can charge indirect costs to another DOD organization. We also recommend that the USD(C)/CFO require DOD organizations to report reimbursable fees separately from reimbursables.

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]) require DTIC to:

- Develop a process to accumulate actual costs for the goods and services it provides and calculate a reimbursable fee rate that recovers actual costs.
- Periodically compare the collected reimbursable fees to actual costs and adjust the reimbursable rate as necessary.
- Return fee surpluses, if any, to its customers.
- Comply with DOD policy by not including indirect costs as part of reimbursement charges to DOD organizations.
- Ensure that reimbursable fee purchases have a significant relationship to providing the goods and services.

We recommend that the Assistant Secretary of Defense (Networks and Information Integration)/Chief Information Officer ASD(NII)/CIO revise SNaP-IT to allow the reporting of IT expenditures funded with reimbursable fees.

Management Comments and Our Response

The Under Secretary of Defense (Comptroller)/Deputy Chief Financial Officer agreed to revise the DOD FMR. In addition, he will require DOD organizations to report reimbursable fees separately. The Principal Deputy, Defense Research and Engineering will establish a Review Board to implement our recommendations. The Acting ASD(NII)/CIO plans to conduct a study to determine whether other DOD organizations are reporting IT purchases made with reimbursable dollars. If material, they will establish a reporting process. Management comments were responsive to the recommendations.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comment Required
Under Secretary of Defense (Comptroller)/ Chief Financial Officer		A.1, B.1, B.2.
Under Secretary of Defense for Acquisition, Technology, and Logistics		A.2.a.(1), A.2.a.(2), A.2.a.(3), A.2.a.(4), A.2.a.(5), A.2.a.(6), A.2.a.(7), A.2.b.(1), A.2.b.(2).
Assistant Secretary of Defense (Network and Information Integration)		C.

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Introduction

Objectives

Our objective was to substantiate the validity of allegations that employees at the Defense Technical Information Center (DTIC) improperly used fees collected for Information Analysis Center (IAC) programs for DTIC functions and activities that were unrelated to the IAC programs. Another objective was to determine whether DTIC employees failed to report the IAC monies in budget reports and in the Select and Native Programming Information Technology System (SNaP-IT). 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]). See the Appendix for a discussion of the Scope and Methodology.

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 fee collection and expenditures to oversight entities, and failed to report its IT expenditures. OSC is authorized by 5 U.S.C. § 1213(a) and (b) 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 (g).

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, 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 improperly augmented its budget by collecting reimbursable fees in excess of the actual costs it incurred.
- DTIC did not report the reimbursable fees it collected on the DOD Budget Estimate Submission or the President's Budget as required, and, therefore, it did not report the reimbursable fees it collected to any oversight entities.
- DTIC did not report IT expenditures made with reimbursable fees on the Select and Native Programming Information Technology System (SNaP-IT).

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

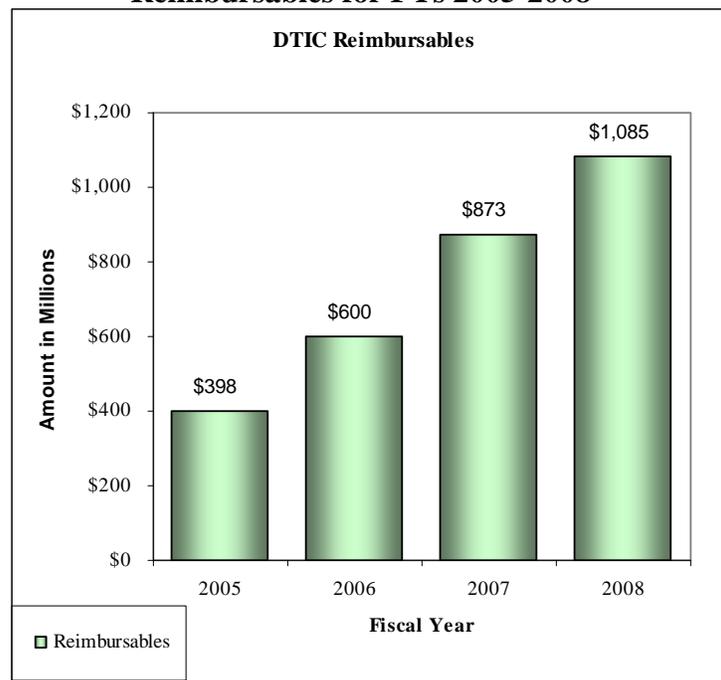
DTIC's workforce consists of both Government and contract personnel with expertise in technical information, IT, and program management. The IAC Program directorate is one of eight DTIC directorates. See Table 2 for a listing of the directorates.

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 is to be set to recover the actual costs to the IACs. During the 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, has 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.

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%

Review of Internal Controls

We identified the following internal control weaknesses at the DTIC as defined by DOD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006.

- 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. Specifically, DTIC did not properly establish a reimbursable fee rate, improperly charged reimbursable fees to DOD organizations, and did not properly use reimbursable fees collected. Recommendations A.1, A.2.a.(1)-(7), and A.2.b, if implemented, will correct these internal control weaknesses.
- DTIC did not report reimbursable and reimbursable fees separately on any USD(C)/CFO management reports for FY 2007 and FY 2008. Recommendations B.1.-2, if implemented, will correct this internal control weakness.
- DTIC did not report IT expenditures made with reimbursable fees in SNaP-IT. Recommendation C, if implemented, will correct this internal control weakness.

We will send a copy of this report to the senior officials in charge of internal controls for the Under Secretary of Defense(Comptroller)/Chief Financial Officer (USD[C]/CFO), USD(AT&L), and the Assistant Secretary of Defense (Network and Information Integration)/Chief Information Officer (ASD[NII]/CIO).

Finding A. Charging Actual Costs

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. Specifically, DTIC:

- did not properly establish a reimbursable fee rate,
- improperly charged reimbursable fees to DOD organizations, and
- did not properly use 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, DOD Instruction 4000.19 “Interservice and Intergovernmental Support,” August 9, 1995, states indirect costs will not be included in reimbursement charges. DOD Regulation 7000.14-R, DOD Financial Management Regulation (DOD FMR) did not adequately address whether DOD agencies may charge indirect costs (overhead) to other DOD organizations. 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, augmented its budget, and may have overcharged its customers by \$12.1 million and \$9.7 million in FY 2007 and FY 2008, respectively.

Charging Actual Costs for Goods and Services

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. Specifically, DTIC did not properly establish a reimbursable fee rate, improperly charged reimbursable fees to DOD organizations, and did not properly use reimbursable fees collected.

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.

Title 31 of the United States Code, “Money and Finance,” Section 1535, “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 FMR, volume 11A, chapter 1, “General Reimbursement Procedures and Supporting Documentation,” April 2008, 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.

DTIC should develop, document, and implement a process for accumulating actual indirect cost (overhead) incurred by its IACs. DTIC should also ensure that the new process complies with DOD FMR, volume 11A, chapters 1 and 3. DTIC should calculate a reimbursable fee rate at the beginning of each fiscal year to recover its estimated costs. In addition, DTIC should review the reimbursable fee rate periodically throughout each fiscal year and adjust as necessary. Additionally, DTIC should return reimbursable fee surpluses to customers.

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. Different organizations may interpret these chapters

differently. The USD(C)/CFO should revise the DOD FMR, volume 11A, chapters 1 and 3, to state when a DOD organization is permitted to charge indirect costs to other DOD organizations. In addition, the Under Secretary of Defense for Acquisition, Technology, and Logistics, should require DTIC to follow DOD Instruction 4000.19.

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 paid \$13.5 million for these 40 purchases with IAC fees. 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. 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 Counsel¹ 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 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, the General Counsel stated that DTIC could not use the fees collected to support one IAC's costs to support another IAC's costs.

DTIC should develop an internal process to ensure that its reimbursable fee purchases have a significant relationship to providing the goods and services. In addition, an independent group internal or external to DTIC should periodically review this process.

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, February 2006 (Red Book), states that an

¹In 1998, DTIC was part of the Defense Information Systems Agency and received legal support from its General Counsel office.

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.

Recommendations, Management Comments, and Our Response

A.1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer revise the DOD FMR, volume 11A, chapter 1, "General Reimbursement Procedures and Supporting Documentation," and chapter 3, "Economy Act Orders," to state when a DOD organization is permitted to charge indirect costs to other DOD organizations.

Under Secretary of Defense Comptroller (Program/Budget) Deputy Comptroller Comments

The Under Secretary of Defense Comptroller (Program/Budget) Deputy Comptroller agreed with our recommendation. The Under Secretary of Defense Comptroller will revise the DOD Financial Management Regulations to clarify when a DOD organization, performing under Economy Act authority, is permitted to charge indirect costs to other DOD organizations.

Our Response

The Under Secretary of Defense Comptroller (Program/Budget) Deputy Comptroller comments are responsive and the actions meet the intent of the recommendations.

A.2. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

a. Require the Defense Technical Information Center to:

(1) Develop, document, and implement a process for accumulating actual indirect costs (overhead) incurred by its Information Analysis Centers.

(2) Ensure the new process complies with DOD Regulation 7000.14-R, "DOD Financial Management Regulation," volume 11A, chapter 1, "General Reimbursement Procedures and Supporting Documentation," and chapter 3, "Economy Act Orders."

(3) Calculate a reimbursable fee rate at the beginning of each fiscal year that recovers the Information Analysis Center directorate's estimated actual and indirect costs for the fiscal year.

(4) Periodically compare the collected reimbursable fees to the actual costs incurred and determine whether any adjustments to the reimbursable rate are necessary.

(5) Return any fee surpluses to its customers at each fiscal year end.

(6) Comply with DOD Instruction 4000.19, “Interservice and Intergovernmental Support,” August 9, 1995, by not including indirect costs as part of reimbursement charges to DOD organizations.

(7) Ensure that the reimbursable fee purchases have a significant relationship to providing the goods and services.

b. Review Defense Technical Information Center’s:

(1) Process for accumulating actual direct and indirect (overhead) costs incurred by its Information Analysis Centers to establish a reimbursable rate.

(2) Process for determining whether reimbursable fee purchases have a significant relationship to providing the goods and services.

Principal Deputy, Defense Research and Engineering Comments

The Principal Deputy, Defense Research and Engineering, in coordination with the Director, Acquisition Resources and Analysis, agreed with recommendation A.2.a and A.2.b. The Director will require DTIC to establish an Information Analysis Center Reimbursable Review Board (the Board). The Board will establish a process for creating a reimbursable rate and will provide details and justification for the rate annually. The Board will use the process annually to calculate the reimbursable rate. The Board will periodically compare the collected reimbursable fees and the actual costs incurred, and it will return surplus funds in alignment with multiyear Research Development Test and Evaluation requirements. The Board will review items for allowability and assess the relationship between the DTIC activities and the Information Analysis Center activities. The Board will obtain written concurrence from the Office of Secretary of Defense legal counsel that the plan is consistent with statutory and regulatory guidance. The Board products will be approved by the Director of Defense Research and Engineering and the Under Secretary of Defense Acquisition, Technology, and Logistics, and will be coordinated as appropriate with the Under Secretary of Defense (Comptroller)/Chief Financial Officer.

Our Response

The Under Secretary of Defense for Acquisition, Technology, and Logistics comments are responsive and the actions meet the intent of the recommendations.

Finding B. Reporting Reimbursable Fees

DTIC did not report reimbursables and reimbursable fees separately on any USD(C)/CFO management reports for FY 2007 and FY 2008. This occurred because USD(C)/CFO does not require DOD organizations with reimbursables to report reimbursable fees separately. As a result, 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 USD(C)/CFO is unable to perform management oversight and make informed budget decisions.

Criteria

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.

Reporting of Reimbursable Fees

DTIC did not report reimbursables and reimbursable fees separately on any USD(C)/CFO management reports for FY 2007 and FY 2008. DTIC reimbursables in FY 2007 and FY 2008 was \$873 million and \$1.1 billion, respectively (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, on the following page, provides the amount of fees DTIC collected in FY 2007 and FY 2008, from DOD and other organizations.

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

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.

This occurred because USD(C)/CFO does not require DOD organizations with reimbursables to report reimbursable fees separately. Specifically, neither OMB Circular A-11 nor DOD FMR, volume 2A requires DOD to report reimbursable fees separately. The USD(C)/CFO should require DOD organizations to report reimbursable fees separately from reimbursables.

Visibility of Reimbursable Fees

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. Furthermore, 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. As a result, 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 Under Secretary of Defense for Acquisition, Technology, and Logistics to monitor DTIC reimbursable fees and to ensure that DTIC acts in accordance with the Economy Act.

The USD(C)/CFO should require reimbursable fees to be reported separately and should monitor DOD organizations reimbursable fees for unusual activity and trends.

Recommendations, Management Comments, and Our Response

B. We recommend that the Under Secretary of Defense (Comptroller)/DOD Chief Financial Officer:

1. Require DOD organizations to report reimbursable fees separately from reimbursable authority.

2. Monitor the Defense Technical Information Center reimbursable fees for unusual activity and trends.

Under Secretary of Defense Comptroller (Program/Budget) Deputy Comptroller Comments

The Under Secretary of Defense Comptroller (Program/Budget) Deputy Comptroller agreed with recommendation B.1. The Deputy Comptroller will revise the DOD Financial Management Regulations to require organizations to report reimbursable fees within reimbursable authority.

The Under Secretary of Defense Comptroller (Program/Budget) Deputy Comptroller agreed with recommendation B.2. The Deputy Comptroller will review the Information Analysis Center Reimbursable Review Board reimbursable fee rate calculation and the periodic comparison of collected reimbursable fees to actual costs as required by recommendation A.2.a.(3) and A.2.a.(4).

Our Response

The Under Secretary of Defense Comptroller (Program/Budget) Deputy Comptroller comments are responsive and the actions meet the intent of the recommendations.

Finding C. Reporting Information Technology Expenditures

DTIC did not report IT expenditures made with reimbursable fees in the Select and Native Programming Information Technology System (SNaP-IT). This occurred because SNaP-IT does not allow users to report IT spending funded by reimbursable fees. As a result, DOD and OMB cannot review and evaluate DTIC's IT spending and compare it with other Federal agencies.

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, "Preparation, Submission, and Execution of the Budget," November 14, 2008, 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)/Chief Information Officer, Deputy Assistant Secretary of Defense (Resources) uses 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 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.

Recommendations, Management Comments, and Our Response

C. We recommend that the Assistant Secretary of Defense (Networks and Information Integration), revise the Select and Native Programming Information Technology System to allow the reporting of information technology expenditures funded with reimbursable fees.

Assistant Secretary of Defense (Network and Information Integration)

The Acting Assistant Secretary of Defense (Network and Information Integration)/Chief Information Officer agreed with our recommendation. The Acting Assistant Secretary concurred that DTIC did not report information technology purchases made with reimbursable funds in the Select and Native Programming Information Technology System. The Acting Assistant Secretary will conduct a study to determine the extent to which DOD organizations purchase information technology using reimbursable fees and are not reported to the Office of Management and Budget. If the amount of information technology purchased is immaterial, then a waiver from the Office of Management and Budget will be requested. If the amount is significant, then an appropriate process will be implemented to ensure the information technology purchases are reported.

Our Response

The Acting Assistant Secretary of Defense (Network and Information Integration)/Chief Information Officer comments are responsive and the actions meet the intent of the recommendation.

Appendix. Scope and Methodology

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. To substantiate this, we performed procedures such as the following.

- We reviewed
 - the February 3, 2009, OSC letter to the Secretary of Defense and its attachments;
 - the Economy Act, OMB guidance, and DOD FMR;
 - the list of reimbursable revenue and fees we received from DTIC; and
 - DTIC procedures for calculating the reimbursable fee rate.
- We interviewed the DTIC whistleblower to better understand the allegations and DTIC operations.
- 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 the 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 Assistant Secretary of Defense (Networks and Information Integration)/Chief Information Officer, Deputy Assistant Secretary of Defense (Resources) staff to determine whether DTIC reported IT expenditures on SNaP-IT.

Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

Director of Defense Research and Engineering



DIRECTOR OF DEFENSE RESEARCH AND ENGINEERING
3040 DEFENSE PENTAGON
WASHINGTON, DC 20301-3040

SEP 17 2009

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL DEPUTY INSPECTOR
GENERAL FOR AUDITING, DEFENSE BUSINESS
OPERATIONS

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *YNS 9/18/09*

SUBJECT: Response to DoD IG Draft Report on Review of Defense Technical
Information Center Internal Controls (Project No. D2009-D000FP-0158.000)

As requested, I am providing responses to the general content and
recommendations contained in the subject report.

Recommendation A.2.a:

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

a. Require the Defense Technical Information Center to:

- (1) Develop, document, and implement a process for accumulating actual indirect costs (overhead) incurred by its Information Analysis Centers.
- (2) Ensure the new process complies with DOD Regulation 7000.14-R, "DOD Financial Management Regulation," volume 11A, chapter 1, "General Reimbursement Procedures and Supporting Documentation," and chapter 3, "Economy Act Orders."
- (3) Calculate a reimbursable fee rate at the beginning of each fiscal year that recovers the Information Analysis Center directorate's estimated actual and indirect costs for the fiscal year.
- (4) Periodically compare the collected reimbursable fees to the actual costs incurred and determine whether any adjustments to the reimbursable rate are necessary.
- (5) Return any fee surpluses to its customers at each fiscal year end.
- (6) Comply with DOD Instruction 4000.19, "Interservice and Intergovernmental Support," August 9, 1995, by not including indirect costs as part of reimbursement charges to DOD organizations.
- (7) Ensure that the reimbursable fee purchases have a significant relationship to providing the goods and services.

Response:

Concur.

- o OSD AT&L/DDR&E will require DTIC establish an annual IAC Reimbursable Review Board. The products required of that board will be approved by OSD AT&L/DDR&E and coordinated as appropriate with Comptroller.

- That board will:
 - Establish a process for creation of fixed reimbursable rates for the IACs, to be applied to allowable items and provide details and justification for the rate annually.
 - Obtain written concurrence from OSD legal counsel that the plan is consistent with statutory and regulatory guidance.
 - Utilize the process created above for establishment of fixed reimbursable rates for the IACs to calculate the rate annually.
 - Establish a timeline each year for assessment and documentation provided to OSD AT&L/DDR&E of the comparison for collected reimbursable fees and actual costs incurred.
 - Provide to OSD AT&L/DDR&E plans for determination and return of surplus funds in alignment with multi-year RDT&E requirements.
 - OSD AT&L/DDR&E will coordinate with Comptroller a review of budgeting method models for DTIC and the IACs, including direct funding and working capital funds among others. This will ensure that the most effective structure is in place for the current mission of the organization, complying with all existing laws and regulations.
 - Review items for allowability and annually assess the relationship between core and IAC activities.
 - We believe the additional personnel necessary for administration of these procedures are direct support of the IAC mission and will be 100% funded by reimbursable fees.

Recommendation A.2.b:

b. Review Defense Technical Information Center's:

- (1) Process for accumulating actual direct and indirect (overhead) costs incurred by its Information Analysis Centers to establish a reimbursable rate.
- (2) Process for determining whether reimbursable fee purchases have a significant relationship to providing the goods and services.

Response:

Concur.

- OSD AT&L/DDR&E will require DTIC establish an IAC Reimbursable Review Board as noted above. The products required of that board will be approved by OSD AT&L/DDR&E and coordinated as appropriate with Comptroller.
- In response to the overall assessment during the review process, and in light of DTIC's significant growth over the last 5 years, OSD AT&L/DDR&E will request

General Counsel provide dedicated legal counsel to ensure alignment with all existing laws and regulations.

Please contact [REDACTED], if additional information is required.



[REDACTED]
Principal Deputy

cc: USDCC [J.R.Roth]
ASD/NI [B. Hammons]

Under Secretary of Defense Comptroller (Program/Budget) Deputy Comptroller



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
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SEP 23 2009

(Program/Budget)

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Review of Defense Technical Information Center (DTIC) Internal Controls
(Project No. D2009-D000FP-0158.000)

Comments on the draft report recommendations requiring comment by the Office of the Under Secretary of Defense (Comptroller)/DOD Chief Financial Officer (OUSDC)/DCFO are provided.

RECOMMENDATION A1: Revise the DoD FMR, Volume 11A, Chapter 1, "General Reimbursement Procedures and Supporting Documentation," and chapter 3, "Economy Act Orders," to state when a DoD organization is permitted to charge indirect costs to other DOD organizations.

DoD RESPONSE: Concur. The OUSDC will update Chapters 1 and 3 of the DoD FMR to clarify when a DoD organization, performing under the Economy Act authority, is permitted to charge indirect costs to another DoD organization.

RECOMMENDATION B1: Require DoD organizations to report reimbursable fees separately from reimbursable authority.

DoD RESPONSE: Concur. The OUSDC will update the DoD FMR to require organizations to report reimbursable fees within reimbursable authority.

RECOMMENDATION B2: Monitor the Defense Technical Information Center reimbursable fees for unusual activity and trends.

DoD RESPONSE: Concur. The OUSDC Comptroller will review the calculation and comparison reports as required in recommendation A.2.3 and A.2.4, as prepared by the DTIC.

Deputy Comptroller



Assistant Secretary of Defense (Networks and Information Integration)



NETWORKS AND INFORMATION
INTEGRATION

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OCT 2 2009

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL DEPUTY INSPECTOR
GENERAL FOR AUDITING, DEFENSE BUSINESS
OPERATIONS

SUBJECT: Response to Review of Whistleblower Disclosure Regarding the DoD
Defense Technical Information Center (Project No. D2009-D000FP-
0158.000)

As requested, I am providing a response to the recommendation for Finding C in
the subject report.

Recommendation for Finding C:

We recommend that the Assistant Secretary of Defense (Networks and
Information Integration), revise the Select and Native Programming Information
Technology System to allow the reporting of information technology expenditures funded
with reimbursable fees.

Response:

The ASD (NII)/DoD Chief Information Officer (CIO) concurs that DTIC did not
report IT purchased with reimbursable funds in SNAP-IT. However, it is possible that
reimbursable funds provided to DTIC were reported by the DoD Component in SNAP-
IT, as part of that Component's IT submission. The ASD(NII)/DoD CIO will conduct a
study to determine the extent to which Defense Agencies purchase IT using reimbursable
dollars and are not reported to OMB. If the amount of IT purchased is immaterial, then a
waiver from OMB will be requested. If the amount is significant, an appropriate process
to ensure reporting will be implemented.

ASD (NII)/DoD CIO strongly endorses the proposal from the Under Secretary of
Defense for Acquisition, Technology and Logistics (USD(AT&L)), as outlined in their
response to Recommendation A2.a, to establish a DTIC Information Analysis Centers
(IAC) Reimbursable Review Board for the costs incurred by the IACs. This review
board will provide a written report to OSD AT&L/DDR&E for review and will capture
expenditures from reimbursable funding on all actions undertaken by DTIC, including
any necessary IT items.



My point of contact for this action is [REDACTED]. He can be reached at [REDACTED] or via e-mail at [REDACTED].


[REDACTED]
Acting



Inspector General Department of Defense

