INFORMATION TECHNOLOGY

Improvements Needed in the Reliability of Defense Budget Submissions
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Why GAO Did This Study
The Department of Defense (DOD) spends more on information technology (IT) annually than any other department or agency, accounting for about half of the $59 billion governmentwide IT budget in fiscal year 2004. It is thus important that consistent, accurate, and complete DOD IT budget information is available to the Congress and the Office of Management and Budget (OMB) so that they can make informed decisions among competing demands for funds. Accordingly, GAO reviewed the department’s fiscal year 2004 IT budget submission to determine whether it was reliable, including identifying opportunities for future improvement.

What GAO Found
DOD’s IT budget submission for fiscal year 2004 contains material inconsistencies, inaccuracies, or omissions that limit its reliability. For example:

- Two primary parts of the submission—the IT budget summary report and the detailed Capital Investment Reports on each IT initiative—are inconsistent. In particular, 15 initiatives that appear in the budget summary do not appear in the Capital Investment Reports, and discrepancies exist between the two types of reports in the amounts requested for 73 major initiatives. These discrepancies total about $1.6 billion. (The table below shows the portion of this total difference that is attributable to various DOD organizations.)
- Major initiatives do not consistently use the same type of appropriations to fund the same activities. That is, to fund the same types of activities, some DOD organizations used the Research, Development, Test, and Evaluation appropriations and others used the Operation and Maintenance appropriations.
- The IT budget summary does not include all the costs of the IT initiatives, which is contrary to federal guidance. For example, the IT budget reports do not always include the costs of military personnel working on the initiatives.

These problems are largely attributable to insufficient management attention and limitations in departmental policies and procedures, such as guidance in DOD’s Financial Management Regulation, and to shortcomings in systems that support budget-related activities. The result is that OMB and the Congress are constrained in their ability to make informed IT funding decisions and conduct effective oversight and control, which could cause decision makers to approve or deny funding for programs that they might otherwise have treated differently, as well as increasing the chances of funds in an appropriation not being sufficient to cover obligations.

<table>
<thead>
<tr>
<th>DOD component</th>
<th>Discrepancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of the Air Force</td>
<td>$362.81</td>
</tr>
<tr>
<td>Department of the Army</td>
<td>55.57</td>
</tr>
<tr>
<td>Department of the Navy</td>
<td>581.89</td>
</tr>
<tr>
<td>Seven agencies and activities and the Office of the Secretary of Defense</td>
<td>88.96</td>
</tr>
<tr>
<td>Multiple organizations†</td>
<td>530.61</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,619.84</strong></td>
</tr>
</tbody>
</table>

Source: GAO analysis of DOD data.

† Of 30 cross-service initiatives, 27 had differences, but these differences could not be attributed to a single component because more than one component reported funding for each initiative.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Randolph C. Hite at (202) 512-3439 or hiter@gao.gov.

December 2003

Contents

Letter

Results in Brief 1
Background 2
DOD's Fiscal Year 2004 IT Budget Submission Contains Unreliable Information 3
Conclusions 21
Recommendations 22
Agency Comments and GAO Evaluation 23

Appendix

Appendix I: Objective, Scope, and Methodology 26

Tables

Table 1: Information Included in Budget Justification Reports 4
Table 2: Comparison of Total Funding for Three Groupings of Major Initiatives 9
Table 3: Stratified Funding Differences among 176 Initiatives in Exhibit 300 and IT-1 Reports 10
Table 4: Net Differences, Total Differences, and Number of Initiatives with Differences, by DOD Component 11
Table 5: Discrepancies between Sum of Line Items and Total Amount Reported on Exhibit 300s, by DOD Component 14
### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>CIO</td>
<td>Chief Information Officer</td>
</tr>
<tr>
<td>DOD</td>
<td>Department of Defense</td>
</tr>
<tr>
<td>FMR</td>
<td>Financial Management Regulation</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>O&amp;M</td>
<td>Operation and Maintenance</td>
</tr>
<tr>
<td>OMB</td>
<td>Office of Management and Budget</td>
</tr>
<tr>
<td>OSD</td>
<td>Office of the Secretary of Defense</td>
</tr>
<tr>
<td>RDT&amp;E</td>
<td>Research, Development, Test, and Evaluation</td>
</tr>
</tbody>
</table>

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December 19, 2003

The Honorable Jim Saxton
Chairman
The Honorable Martin T. Meehan
Ranking Minority Member
Subcommittee on Terrorism, Unconventional Threats, and Capabilities
Committee on Armed Services
House of Representatives

To make informed funding decisions among competing demands for federal funds, the Congress and the Office of Management and Budget (OMB) need federal departments and agencies to provide consistent, accurate, and complete budget information. This is particularly important in the case of the information technology (IT) budget for the Department of Defense (DOD), because the department spends more on IT annually than any other department or agency, accounting for about half of the roughly $59 billion governmentwide IT budget in fiscal year 2004. Among other things, the department's IT funding is to provide for modernization, operation, and maintenance of thousands of information systems that support such important business functions as accounting, acquisition, logistics, and personnel management. DOD's IT funding is also to provide for modernization, operation, and maintenance of the department's technology infrastructure, such as its telecommunication networks.

Because of the importance of DOD's IT budget information to the Congress, we evaluated the department's fiscal year 2004 IT budget submission. Our objective was to determine whether the submission was reliable, including identifying opportunities for improving the reliability of future submissions. To do so, we assessed the funding information in DOD's primary IT budget reports to determine whether the information reported was consistent between reports, whether the reports included all information that OMB requires, whether the correct appropriations and budget categories were used, and whether the reports included all relevant costs. Our objective, scope, and methodology are discussed in detail in appendix I.
DOD's fiscal year 2004 IT budget submission includes inconsistencies, inaccuracies, and omissions that limit its reliability. For example, the Capital Investment Reports, which provide detailed information on each major IT initiative, are inconsistent with DOD's IT budget summary report.\(^1\) In particular, 15 major initiatives that appear in the budget summary report do not appear in the Capital Investment Reports, and discrepancies exist between the amounts that the two types of reports included for 73 major initiatives. These discrepancies total about $1.6 billion. The Capital Investment Reports also contain omissions and errors, such as missing life cycle phase information and errors in calculations. Also, the Capital Investment Reports’ amounts for planning and acquisition activities for major initiatives are not always classified as development/modernization, which is the budget category that OMB requires for such activities, and these reports do not consistently use the same appropriations to fund the same activities. Additionally, the IT budget summary does not include all the costs of the IT initiatives, which is contrary to guidance in federal accounting standards and the Federal Financial Management Improvement Act of 1996.\(^2\) For example, the budget submission does not always include the costs of military personnel working on the initiatives. These inconsistencies, inaccuracies, and omissions are largely attributable to limitations in departmental regulations and guidance and to shortcomings in the systems that support the development of the budget submission, as well as to insufficient management attention. The result is that OMB and the Congress are forced to make IT funding decisions on the basis of information whose reliability is limited, which could cause decision makers to approve or deny funding for programs that they might otherwise have treated differently and increases the chances of funds in an appropriation not being sufficient to cover obligations.

To improve the reliability of DOD’s future IT budget submissions, we are making eight recommendations to the Secretary of Defense aimed at raising the level of management attention to IT budget submission reliability and strengthening the associated management processes and supporting systems. In commenting on a draft of this report, DOD either

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1According to OMB Circular A-11, Capital Investment Reports, also known as Exhibit 300s, are required for initiatives that OMB defines as major: that is, those initiatives that require special management attention because of their importance to an agency’s mission or that have significant program or policy implications.

2Public Law 104-208, section 803(a).
agreed or partially agreed with our recommendations and described actions that it plans to take to improve the reliability of its IT budget submissions.

Background

DOD’s IT budget submission for fiscal year 2004 totaled about $28 billion. Of this, about $9.1 billion was for what the department termed national security systems, such as telecommunications networks and systems that perform command and control functions. The remaining approximately $18.8 billion was for business initiatives, such as finance and accounting systems, military and civilian personnel systems, and logistics systems. The roughly $28 billion included about $17.4 billion for operating and maintaining existing systems and infrastructure and about $10.5 billion for modernizing systems and infrastructure. Examples of major initiatives included in this budget submission are the following:

- the Global Command and Control System, a joint program intended to provide the information resources needed by warfighters to accomplish their command and control missions;

- the Defense Information System Network, a communications infrastructure initiative that is intended to connect DOD’s mission support and armed forces using a combination of government and private infrastructure; and

- the Defense Integrated Military Human Resources System, a military personnel and pay system that is expected to integrate personnel and pay functions for all military services.

DOD’s IT budget submission consists of three basic reports:  

In addition to the three basic reports, the budget submission includes a report called All Departments Information Technology/National Security Systems, which presents the budget information by DOD organization.
• Capital Investment Reports, also called Exhibit 300s, which are used by OMB to determine whether an IT initiative meets budgetary guidelines for funding. These reports provide detailed information on major IT initiatives, including budget information by appropriation type and life cycle phase. They are required for every major IT initiative, according to OMB Circular A-11. The Exhibit 300 is submitted to OMB, and a subset of the information contained in it is submitted to the Congress.

• The IT budget summary, also known as the IT-1 spreadsheet, which is intended to capture DOD’s entire IT budget, including both major and nonmajor initiatives, as well as information on which of two OMB-defined budget categories each initiative’s funding falls into—development/modernization or current services. (The Exhibit 300 does not provide information on budget category.) The IT-1 spreadsheet is submitted to the Congress.

• The Exhibit 53 provides a high-level summary of information that is in the IT-1 spreadsheet; thus, it does not include all the information that is in the IT-1 spreadsheet. This exhibit is provided to OMB.

Table 1 describes the types of budget information provided in these three reports.

<table>
<thead>
<tr>
<th>Type of information</th>
<th>Information subtype</th>
<th>Description*</th>
<th>Report in which information appears</th>
</tr>
</thead>
<tbody>
<tr>
<td>System classification</td>
<td>Major</td>
<td>Among other things, those initiatives that require special management attention because of their importance to an agency’s mission, or that have significant program or policy implications (OMB definition)</td>
<td>Exhibit 300, IT-1 spreadsheet, Exhibit 53</td>
</tr>
<tr>
<td></td>
<td>Nonmajor</td>
<td>Investments or initiatives that do not meet the criteria for major initiatives (DOD classification)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>All other</td>
<td>An additional DOD classification for certain initiatives</td>
<td></td>
</tr>
</tbody>
</table>

*OMB Circular A-11, Preparation, Submission, and Execution of the Budget.
(Continued From Previous Page)

<table>
<thead>
<tr>
<th>Type of information</th>
<th>Information subtype</th>
<th>Description</th>
<th>Report in which information appears</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriation type used to fund IT&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Procurement</td>
<td>Funds for the acquisition of such items as hardware, infrastructure, software, and services</td>
<td>Exhibit 300, IT-1 spreadsheet</td>
</tr>
<tr>
<td></td>
<td>Research, Development, Test, and Evaluation</td>
<td>Funds for research, development, test, and evaluation activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Military Personnel</td>
<td>Funds for military personnel who are planning, acquiring, developing, or maintaining IT initiatives</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operation and Maintenance</td>
<td>Generally, funds for operating and maintaining IT systems or infrastructure</td>
<td></td>
</tr>
<tr>
<td>Budget category</td>
<td>Development/modernization</td>
<td>Funds for developing new IT systems or making major enhancements to existing systems</td>
<td>IT-1 spreadsheet, Exhibit 53</td>
</tr>
<tr>
<td></td>
<td>Steady state (referred to by DOD as “current services”)</td>
<td>Funds for operating and maintaining systems at current levels (i.e., without major enhancements)</td>
<td></td>
</tr>
<tr>
<td>Life cycle phase</td>
<td>Planning</td>
<td>Funds for planning IT initiatives</td>
<td>Exhibit 300</td>
</tr>
<tr>
<td></td>
<td>Acquisition</td>
<td>Funds for acquiring or developing IT systems</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Maintenance</td>
<td>Funds for operating and maintaining IT systems</td>
<td></td>
</tr>
</tbody>
</table>

*Sources: OMB, DOD.*

<sup>a</sup> Descriptions of budget information are based on OMB Circular A-11, DOD's Financial Management Regulation, Exhibit 53, Exhibit 300s, and IT-1 spreadsheet for fiscal year 2004.

<sup>b</sup>In addition, some IT initiatives are funded through working capital funds, which may be used for any type of cost by organizations that are financed in this way. (Working capital fund organizations sell goods or services—e.g., network services or financial services—to other DOD organizations and use the income from these sales to fund the production of their respective goods or services.)

The types of information in these budget justification reports are interrelated. For example, according to an official from the DOD Comptroller's office, the life cycle phase in which a cost is to be incurred is key to determining the proper appropriation type for funding that cost, as well as to determining the proper budget category (development/modernization or current services). Similarly, Circular A-11 states that funding for all activities that occur during the planning or acquisition phases should be placed in the development/modernization budget category.
The DOD Chief Information Officer (CIO), who is also the Assistant Secretary of Defense for Networks and Information Integration, is responsible for compiling and submitting the department’s IT budget reports to OMB and the Congress. The CIOs and Comptrollers for DOD’s component organizations are responsible for the reliability of the information about their respective initiatives in the submission.\(^5\) Because of the importance of the budget submission, these officials are required to certify in writing as to their reliability. According to a DOD CIO official, the information in the submission is initially prepared by component program offices and processed through the CIO and Comptroller chains of command for the components. The information is then forwarded to the DOD CIO office, where it is consolidated before being sent to OMB and the Congress.

The House Report\(^6\) on the Bob Stump National Defense Authorization Act for Fiscal Year 2003 emphasized the need for reliable IT budget information. Specifically, the report stated:

> “In the past, the [Armed Services Committee] has received information technology documents that describe the various information technology initiatives and provide budget data on these initiatives. These documents, however, are too often inaccurate, misleading, and incomplete. The Department must provide the committee accurate and precise information and data on information technology systems. The committee will rely on the documents, submitted pursuant to this provision, when making recommendations.”

\(^5\)DOD components consist of the military services and DOD agencies and activities, such as the Defense Information Systems Agency and the Defense Human Resources Activity.

Federal agencies also need reliable IT budget information to comply with the requirements of the Clinger-Cohen Act, which specifies that agencies should design capital planning and investment control processes for selecting, controlling, and evaluating IT investments and should integrate those processes with the agencies’ processes for making budget-related decisions.\(^7\) IT investment management best practices, as well as OMB guidance, recognize the importance of reliable information, including the correct use of budget categories and the consistent use of appropriation types, to support these processes and decisions.\(^8\)

DOD’s fiscal year 2004 IT budget submission includes inconsistent, inaccurate, and incomplete information, as follows:

- The Exhibit 300 Capital Investment Reports and the IT-1 spreadsheet contain different numbers of major initiatives, and the reports’ funding amounts for major initiatives also differ significantly.

- The Exhibit 300s contain omissions and errors, such as missing life cycle phase information and errors in calculations.

- The Exhibit 300s contain funding amounts for planning and acquisition activities that do not use the correct budget category—development/modernization.

- The Exhibit 300s do not consistently use the same appropriation types to fund the same IT development and modernization activities.

- The IT-1 spreadsheet does not include all the direct and indirect costs required to fund IT initiatives, such as the direct costs of military personnel working on the initiatives and the indirect costs of resources that are jointly used by multiple initiatives or organizations.

\(^7\)40 U.S.C. § 11312.

These inconsistencies, inaccuracies, and omissions are attributable in part to insufficient management attention to the reliability of the reports as well as ambiguities in DOD’s Financial Management Regulation (FMR) and a lack of supporting systems and control processes for ensuring consistency between reports. Without accurate and complete IT budget information, OMB and the Congress are not provided with sufficient information to make informed decisions about DOD’s portfolio of competing IT investment options or to adjust the level of funding devoted to IT. Without sufficient information, decision makers could approve or deny funding for programs that might otherwise have been treated differently. Moreover, inconsistency in how DOD uses appropriation accounts reduces congressional and departmental oversight and control of how the department uses the accounts. Further, this inconsistency increases the risk of violations of the Anti-deficiency Act, which can occur when funds that have been apportioned from an appropriation are insufficient to cover obligations.

DOD’s Exhibit 300s Are Not Consistent with Its IT-1 Budget Spreadsheet

Information in DOD’s Exhibit 300 Capital Investment Reports, reported for its major IT initiatives as part of the fiscal year 2004 budget submission, is not consistent with funding information in DOD’s fiscal year 2004 IT budget summary, which DOD submits to the Congress in the form of the IT-1 spreadsheet and to OMB in the form of the Exhibit 53. Discrepancies were evident in the number of major initiatives that appear in these two reports, as well as in the amounts for 41 percent of the major initiatives that appear on both reports. DOD reported 191 major initiatives in the IT-1 spreadsheet and 179 major initiatives in the Exhibit 300s. While the two reports have 176 major initiatives in common, the IT-1 spreadsheet includes 15 initiatives that are not in the Exhibit 300s, and the Exhibit 300s classify 3 initiatives as major that the IT-1 spreadsheet classifies as nonmajor. Table 2 compares the total amounts reported for these three groupings of major initiatives.

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9DOD’s Financial Management Regulation includes rules on the use of appropriations and definitions of development/modernization and current services.
1031 U.S.C. §§ 1341(a), 1517(a). These sections of the Anti-deficiency Act prohibit obligations or expenditures in excess of available funds.
11The IT-1 spreadsheet classifies each initiative as major, nonmajor, or all other. OMB requires that an Exhibit 300 be prepared for each major initiative, but not for the other categories.
Table 2: Comparison of Total Funding for Three Groupings of Major Initiatives

<table>
<thead>
<tr>
<th>Major initiatives</th>
<th>IT-1 spreadsheet</th>
<th>Exhibit 300s</th>
<th>Difference*</th>
</tr>
</thead>
<tbody>
<tr>
<td>176 on both Exhibit 300 and IT-1 spreadsheet</td>
<td>$14,527</td>
<td>$14,823</td>
<td>$–296</td>
</tr>
<tr>
<td>15 on IT-1 spreadsheet only</td>
<td>83</td>
<td>—</td>
<td>83</td>
</tr>
<tr>
<td>3 classified as nonmajor on IT-1 spreadsheet</td>
<td>—</td>
<td>57</td>
<td>–57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$14,610</strong></td>
<td><strong>$14,880</strong></td>
<td><strong>$–270</strong></td>
</tr>
</tbody>
</table>

Sources: GAO, DOD.

Note: GAO analysis of DOD’s Exhibit 300s and IT-1 spreadsheet.

*Difference is the IT-1 spreadsheet total amount minus the Exhibit 300 total amount.

DOD officials cited various reasons why 15 major initiatives on the IT-1 spreadsheet did not have Exhibit 300s. For example, an official representing the Department of the Army’s CIO office told us that one of the Exhibit 300s was omitted because responsibility for the initiative was not assigned to the Army in time to prepare the report. The same official told us that another was omitted because after preparing the IT-1 spreadsheet, senior DOD officials decided not to fund the initiative. However, the root cause of these omissions is that DOD does not provide sufficient management attention to IT budget submission reliability. Additionally, DOD does not have the management processes (e.g., policies and procedures) and support systems needed to ensure that the two reports are consistent.

Significant discrepancies also appear in the total dollar amounts reported in the Exhibit 300s and the IT-1 spreadsheet for the 176 major initiatives that were included in both reports. Specifically, DOD’s IT-1 spreadsheet totals about $14.5 billion for these initiatives. For the same major IT initiatives on DOD’s Exhibit 300s, the total dollar amount is about $14.8 billion, about a $300 million difference. This discrepancy can be traced to 73 of the 176 initiatives (41 percent), of which 44 (25 percent) had

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12For 5 of the 15 initiatives without Exhibit 300s, no funding was included for fiscal year 2004. However, for 9 other initiatives, Exhibit 300s were submitted even though no funding was included for fiscal year 2004.
differences over $1 million, and 4 had differences of more than $100 million. Table 3 provides a summary of funding totals for the 176 initiatives stratified by differences between the initiatives’ funding on the IT-1 spreadsheet and Exhibit 300s.

Table 3: Stratified Funding Differences among 176 Initiatives in Exhibit 300 and IT-1 Reports

<table>
<thead>
<tr>
<th>Amount of difference (thousands)</th>
<th>Initiatives</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>More than $100,000</td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>$50,001 to $100,000</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>$10,001 to $50,000</td>
<td>14</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>$1,001 to $10,000</td>
<td>25</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal: differences over $1 million</strong></td>
<td><strong>44</strong></td>
<td><strong>25</strong></td>
<td></td>
</tr>
<tr>
<td>$501 to $1,000</td>
<td>9</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>$101 to $500</td>
<td>9</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>$51 to $100</td>
<td>5</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>$1 to $50</td>
<td>6</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>No difference</td>
<td>103</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>176</strong></td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Sources: GAO, DOD.

Note: GAO analysis of 176 initiatives that appear both in DOD’s Exhibit 300 and in IT-1 spreadsheet budget reports.
The net difference between the total amount reported for all major initiatives on the IT-1 spreadsheet and that reported on the Exhibit 300s is around $296 million. A much greater value results when we sum the differences for each initiative between the IT-1 spreadsheet and the Exhibit 300s: about $1.6 billion. Of the 73 initiatives that account for these differences, the Army and the Department of the Air Force each had 12, and the Department of the Navy had 6. The Navy accounts for the largest share of the total dollar difference, followed by the Air Force. About 95 percent of Navy’s total dollar difference can be attributed to the Navy Marine Corps Intranet program.

Table 4 breaks down the 73 initiatives by component, showing both the different amounts on the two reports and the difference between the total amounts reported.

<table>
<thead>
<tr>
<th>DOD component</th>
<th>Total number of initiatives</th>
<th>Initiatives with differences</th>
<th>Difference (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td>Air Force</td>
<td>22</td>
<td>12</td>
<td>55</td>
</tr>
<tr>
<td>Army</td>
<td>28</td>
<td>12</td>
<td>43</td>
</tr>
<tr>
<td>Navy</td>
<td>32</td>
<td>6</td>
<td>19</td>
</tr>
<tr>
<td>American Forces Information Service</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Defense Commissary Agency</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Defense Finance and Accounting Service</td>
<td>16</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Defense Human Resources Activity</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

13We computed the net difference between the total amounts reported for 176 major initiatives on both reports by subtracting the total amount reported for all major initiatives on the IT-1 spreadsheet from the total amount reported for all major initiatives on the Exhibit 300s.

14We computed the sum of the differences between the amounts for each initiative in the two reports by first finding the difference between the amounts for each of the 176 major initiatives in the two, converting any negative differences to positive values, and then summing all the differences. The sum of the differences is larger than the difference between the IT-1 spreadsheet and Exhibit 300 total amounts because for this calculation, the positive and negative differences between the two reports do not cancel each other out.

15The Navy Marine Corps Intranet is to provide the Navy with a single, secure network for all Navy and Marine Corps military and civilian personnel, including deployed forces.
These inconsistencies among initiatives on the IT-1 spreadsheet and the Exhibit 300s occurred in part because DOD’s management attention to its budget submission has not been sufficient, and because it does not have the management processes (e.g., policies and procedures) and support systems that are needed to ensure consistency. For example, the DOD CIO official who is responsible for compiling the IT budget submission said that the department does not have support systems that allow funding information to be input once and then used to create both the IT-1 spreadsheet and Exhibit 300s. Rather, DOD’s budgeting systems require that similar, but not identical, information be input into multiple databases, in different formats. According to program offices, this practice contributes to inaccuracies and inconsistencies in the budget submission.

Additionally, DOD does not have management processes to ensure the accuracy of changes made to the exhibits by component- and department-level officials after the exhibits are prepared by program offices. For example, officials from two of the six program offices that provided information about this matter told us that information that they reported on the Exhibit 300s was changed when it was incorporated into the IT-1 spreadsheet.

<table>
<thead>
<tr>
<th>DOD component</th>
<th>Total number of initiatives</th>
<th>Initiatives with differences</th>
<th>Difference (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td>Defense Information Systems Agency</td>
<td>14</td>
<td>4</td>
<td>29</td>
</tr>
<tr>
<td>Defense Logistics Agency</td>
<td>5</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Defense Security Service</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Office of the Secretary of Defense</td>
<td>4</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>Transportation Command</td>
<td>9</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TRICARE</td>
<td>7</td>
<td>3</td>
<td>43</td>
</tr>
<tr>
<td>Washington Headquarters Service</td>
<td>3</td>
<td>1</td>
<td>33</td>
</tr>
<tr>
<td>Multiple-component initiatives</td>
<td>30</td>
<td>27</td>
<td>90</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>176</strong></td>
<td><strong>73</strong></td>
<td><strong>41</strong></td>
</tr>
</tbody>
</table>

Note: GAO analysis of Exhibit 300s and IT-1 spreadsheet.

a Net is the IT-1 spreadsheet total amount minus the Exhibit 300 total amount.

b The total difference was calculated by computing the difference between the amounts for each of the 176 major initiatives in the two reports, converting any negative differences to positive values, and then summing all the differences.

c TRICARE is a regionally managed health care program for active duty and retired members of the uniformed services and their families and survivors.

d Of the 30 cross-service initiatives, 27 had differences, but these differences could not be attributed to a single component because more than one component reported funding for each initiative.
spreadsheet by their component CIO offices, and that program offices were not consulted to ensure that the changes were accurate. Furthermore, these officials said that the component CIO offices did not inform program offices of changes made to the IT-1 spreadsheets, and that they did not have access to the information needed to update Exhibit 300s to reflect changes.

DOD’s Exhibit 300s Contain Omissions and Errors

DOD’s fiscal year 2004 Exhibit 300 Capital Investment Reports contain three types of omissions or errors. First, the reports do not include complete information on the life cycle phase of the major initiatives, as required by Circular A-11. According to this circular, Exhibit 300s must summarize funding data by life cycle phase: that is, planning, acquisition, or maintenance. OMB officials stated that this information is used to determine whether IT initiatives have an appropriate balance of planning, acquisition, and maintenance activities. However, of the 197 DOD Exhibit 300s for fiscal year 2004 (representing 179 initiatives), 16 20 exhibits did not classify the funds by life cycle phase.

Second, the total dollar amount reported on 45 Exhibit 300s does not equal the sum of their respective line items. As shown in table 5, the Navy accounts for the majority of these cases—about 69 percent of the 45 exhibits and almost all of the total dollar difference. The discrepancies can be traced to a variety of causes. For example, among the 31 Navy Exhibit 300s with differences, 13 erroneously treated the fiscal year (2004) as a value and added $2,004 million to the funding total. That is, the numeral “2004” was incorrectly treated as a line of funding in the summary of spending. These 13 errors account for about $26 billion of the Navy’s approximately $39 billion difference.

16For major initiatives that involve two or more components, each component may submit a separate Exhibit 300 for the same initiative. As a result, components collectively submitted 197 Exhibit 300s for 179 initiatives.
Table 5: Discrepancies between Sum of Line Items and Total Amount Reported on Exhibit 300s, by DOD Component

<table>
<thead>
<tr>
<th>DOD component</th>
<th>Fiscal year 2004 amounts (millions)</th>
<th>Number of Exhibit 300s with differences</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sum of line items</td>
<td>Total amount reported</td>
</tr>
<tr>
<td>Air Force</td>
<td>$435.3</td>
<td>$445.8</td>
</tr>
<tr>
<td>Army</td>
<td>336.0</td>
<td>214.5</td>
</tr>
<tr>
<td>Navy</td>
<td>1,934.6</td>
<td>40,791.2</td>
</tr>
<tr>
<td>Defense Finance and Accounting Service</td>
<td>8.3</td>
<td>8.8</td>
</tr>
<tr>
<td>Defense Logistics Agency</td>
<td>8.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Transportation Command</td>
<td>44.9</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>$2,767.1</td>
<td>$41,468.1</td>
</tr>
</tbody>
</table>

Sources: GAO, DOD.

Note: GAO analysis of Exhibit 300s and IT-1 spreadsheet.

*We computed the total difference by first calculating the actual sum of the Exhibit 300 line items, subtracting DOD’s reported total for the Exhibit 300 from it, converting any negative differences to positive values, and then summing the differences.

Third, although OMB requires an Exhibit 300 for each major initiative and specifies a defined format to use to present funding information for each initiative, DOD components did not consistently adhere to this format. For example, the Defense Information Systems Agency combined the funding information for seven initiatives in a format that did not clearly provide OMB and congressional decision makers with the funding amounts for each initiative. This inconsistency occurred because the Office of the Secretary of Defense (OSD) does not have clearly defined and consistently applied management controls to ensure that organizations adhere to a specified format for displaying funding information in the Exhibit 300.

Some Development/Modernization Activities Were Improperly Categorized

Circular A-11 requires planning and acquisition activities to be categorized as development/modernization and activities related to operation and maintenance of existing systems to be categorized as steady state, which DOD refers to as current services. Using the appropriate budget categories is important, according to Circular A-11, because it permits understanding, and thus informed decision making, about the relative amounts being spent on developing and modernizing IT versus operating and maintaining the status quo IT environment. Moreover, OMB officials stated that using the
proper budget category is also important because it triggers the appropriate OMB review process for an initiative. If development/modernization activities are miscategorized as current services, the required OMB review process will not be invoked.

DOD's fiscal year 2004 IT budget submission incorrectly categorized the funding reported for some initiatives’ planning and acquisition activities as current services, rather than as development/modernization. This incorrect categorization affected both DOD's Operation and Maintenance (O&M) and its Military Personnel appropriation accounts. For example, the budget submission for the department’s new integrated personnel and pay system included about $14 million to fund program office costs from the O&M appropriation and categorized these costs as current services. However, because DOD intends to perform planning and acquisition activities for this program during fiscal year 2004, a portion of the funding should have been categorized as development/modernization. This means that the development/modernization funding amount for this initiative is understated and the current services amount is overstated. As another example, the IT-1 spreadsheet shows that every major initiative that included funding from the Military Personnel appropriation categorized the amount as current services, regardless of the activities the military personnel were to perform. The DOD CIO official who is responsible for compiling the IT budget submission acknowledged that such miscategorization occurs, but stated that information is not readily available to determine the total number of initiatives and the associated amount of funding that is miscategorized departmentwide.

Officials representing the Navy CIO office stated that the Navy categorizes all IT funding from the O&M appropriation as current services, even if the funding is to be used for development/modernization activities. This miscategorization occurs, in part, because the FMR does not provide clear guidance on categorizing activities as either development/modernization or current services. Specifically, the FMR states that budgeted costs funded from the O&M and Military Personnel appropriations are to be considered expenses, and it defines expenses similarly to current services, in that both refer to the costs of operating and maintaining systems. However, Circular A-11 states that funding for activities that occur during either the planning or acquisition phases of a new IT initiative must be classified as development/modernization. This means that costs budgeted for planning or acquisition activities should be classified as development/modernization, regardless of whether the O&M, Military Personnel, or another appropriation is used to fund the activities. Further, a
DOD Comptroller official who is responsible for advising components on IT budgeting told us that if appropriations are used to fund the planning or acquisition of a system, the costs should be classified as development/modernization, rather than current services.

Our analysis of the FMR confirmed that it does not clearly distinguish between development/modernization and current services costs. More specifically, it defines the two terms as follows:

- development/modernization costs are those for “new applications and infrastructure capabilities” and for “any change or modification to an existing [information system] program, and/or initiative that results in improved capability or performance of the baseline activity,” and the definition includes “personnel costs for Project Management” and

- current services costs are those required to maintain “operations at a current capability and performance level” and include “certain overhead costs associated with PM [program management] offices.”

The FMR definitions are confusing regarding the classification of project management costs because current services costs include “certain overhead costs associated with PM [program management] offices,” and development/modernization includes “personnel costs for Project Management.” Also, the definitions do not clearly state that for new IT initiatives, all funding for planning or acquisition activities should be classified as development/modernization. Furthermore, for modifications of existing systems, the definitions do not provide sufficient criteria for determining whether modifications will result in “improved capability or performance” (development/modernization) or will maintain “operations at a current capability and performance level” (current services).

OSD and Navy CIO officials stated that decisions regarding the amounts that should be categorized as development/modernization or current services for an individual initiative are complicated by the practical fact that the same personnel and equipment are sometimes used to perform both development/modernization and current services activities for the initiative. This occurs because DOD uses a generally accepted system life cycle management practice that involves sequentially developing and deploying subsystems, rather than waiting until the system is completely developed to deploy it. As a result, at various points in the system’s life cycle, some subsystems may be in the maintenance phase while others are in the planning or acquisition phases. In these cases, these officials stated
that most DOD program offices do not have process controls and supporting systems to enable them to accurately estimate the amount that should be budgeted for development/modernization and current services activities.

**IT Budget Submission Does Not Use Appropriation Accounts Consistently**

Appropriations provide the legal authority for federal agencies to obligate funds and make payments from the Treasury for specified purposes. In the report of the House Committee on Appropriations\(^\text{17}\) accompanying the Department of Defense Appropriations Bill, 1999, the Congress expressed concern about DOD's inconsistent use of appropriation accounts to fund IT development/modernization activities. In response, DOD acknowledged the inconsistencies and took steps to correct them by transferring funds from the incorrect appropriation accounts to the correct accounts and by issuing clarifications to its FMR guidelines. Additionally, DOD's Office of the Comptroller issued a memorandum on this issue stating that

"Cross-Service and Agency consistency is important.... In determining what appropriation to use, the purpose of the funding must fall logically within the appropriation's purpose and conform with the expense and investment criteria."

However, the inconsistent use of appropriation accounts is continuing to occur. DOD's fiscal year 2004 IT budget submission does not consistently use the same appropriations accounts to fund the same types of activities. That is, defense components used two different appropriations—the Research, Development, Test, and Evaluation (RDT&E) and O&M—to fund the same types of activities (the cost of civilian personnel and other costs for performing or managing development/modernization activities). According to officials representing 7 of the 10 major initiatives that provided information on this topic, their respective budget reports included funding from the O&M appropriation for civilian personnel costs and other costs for performing or managing development/modernization activities, while according to officials representing 3 other initiatives, their budget reports included funding for these activities from the RDT&E appropriation. Officials from the DOD Comptroller's office stated that the O&M appropriation is the correct one to fund these costs, but that research and development organizations are allowed to use RDT&E appropriations for these costs, because such organizations do not receive O&M appropriations. However, according to a representative of the Army CIO's

office, two of the three organizations that used RDT&E appropriations were not research and development organizations (both were Army programs) and, according to the DOD Comptroller official, should have used O&M appropriations.

A representative of the Army CIO’s office explained that the reason the Army program offices used the RDT&E appropriation to fund the cost of civilian personnel and other costs for performing or managing development/modernization activities was that his office advised them to do so. He stated that this advice was based on the Army CIO office’s interpretation of the FMR and on an October 1999 memorandum from the DOD Comptroller containing the following language:

“This RDT&E funds are typically used for developing new capability. Expenses—the resources used to operate and maintain organizations and current services—are generally budgeted in the O&M appropriations. Investments are costs to acquire capital assets and have a long-term benefit....”

This official further stated that FMR sections, as well as the language in this memorandum, indicate that the costs to develop new IT capabilities, including the costs of civilian personnel and other costs for managing and performing IT development and modernization activities, should be funded with the RDT&E appropriation. However, the official added that the FMR is ambiguous on this matter because other sections indicate that the O&M appropriation may be the correct one to use to fund these costs.

Our analysis of the FMR shows that the FMR is ambiguous regarding the proper appropriation types for funding the costs for development/modernization activities—specifically, the cost of civilian personnel and other costs for managing and performing these activities. The following excerpts from the FMR illustrate its ambiguity in this area. The section on “Budgeting for Information Technology and Automated Information Systems” supports the Army CIO’s position that the RDT&E appropriation should be used to fund these activities:

“In general, all developmental activities involved in bringing a program to its objective system[18] are to be budgeted in RDT&E.”

[18]DOD’s FMR states that bringing a program to its objective system means developing the system to the point that it meets the requirements defined in the system’s requirements documents.
However, other sections of the regulation support the DOD Comptroller officials' position that the O&M appropriation is the correct appropriation for funding the cost of civilian personnel and other costs for managing and performing development/modernization activities. For example, the section on funding policies states that

“Costs budgeted in the Operation and Maintenance (O&M) and Military Personnel appropriations are considered expenses....

“The following guidelines shall be used to determine expense costs: Labor of civilian, military, or contractor personnel....

“The cost of civilian personnel compensation and other direct expenses (i.e., travel, office equipment leasing, maintenance, printing and reproduction) incurred in support of procurement and/or production programs by departmental headquarters staff, contracting offices, contract audit offices, system project offices, and acquisition managers are expenses.”

These FMR sections provide conflicting guidance regarding which appropriation should be used to fund civilian personnel and other costs for development/modernization activities, which can result in the inconsistent use of appropriations. As we have previously reported, use of the wrong appropriation account constitutes a violation of the Purpose Statute and can lead to a violation of the Anti-deficiency Act. For example, we reported that the Navy incorrectly purchased component parts for IT systems with the O&M appropriation account rather than with the Procurement appropriation. Subsequent actions to correct the improper use of the O&M appropriation account resulted in an overobligation of the amount that had been apportioned from Procurement appropriations, thereby violating the Anti-deficiency Act. Further, we reported that the violations resulted from misunderstanding, confusion, or misapplication of financial management regulations and guidance regarding procurement and fund management.


2031 U.S.C. § 1301(a) is commonly referred to as the Purpose Statute.

21Anti-deficiency Act (31 U.S.C. § 1517(a)).
DOD’s Submission Does Not Include All Relevant Project Costs

Contrary to federal accounting guidance, DOD’s budget submission does not include all the costs required to fund IT initiatives. Federal accounting standards and guidance from the Chief Financial Officers (CFO) Council both support the preparation of budget submissions that include the full cost of initiatives—including all direct costs, such as military personnel costs—and those indirect costs that can be allocated or traced to an initiative. Further, the Federal Financial Management Improvement Act of 1996 requires federal agencies to comply with federal accounting standards, including the Statement of Federal Financial Accounting Standard Number 4, “Managerial Cost Accounting Concepts and Standards for the Federal Government.” According to this statement, organizations should report full costs in general purpose financial reports, including the salaries and other benefits of employees who work directly on producing outputs (such as IT initiatives), as well as indirect costs that can be allocated to producing outputs. The statement continues that the cost data in the organization’s budget should be consistent with the full cost data reported in the financial reports. Also, the CFO Council’s *Cost Accounting Implementation Guide* states that preferably, the cost of all significant inputs that can be traced to the achievement of a program’s outputs and intended outcomes should be included in the program’s budget.

DOD’s fiscal year 2004 IT-1 spreadsheet, which summarizes the IT budget and provides information on the budget submission for each major initiative, does not include all the direct costs of the initiatives. Specifically, for numerous initiatives, the spreadsheet did not consistently include IT funding for military personnel who are part of DOD’s IT workforce. On the basis of the average pay and benefits for military personnel, we estimated that the total amount of these workers’ salary and benefits is about $4 billion annually. In its fiscal year 2004 budget submission, DOD’s IT-1 spreadsheet included about $1 billion from the Military Personnel appropriation, meaning that the department’s fiscal year 2004 IT budget is potentially understated by as much as $3 billion. According to the DOD CIO official responsible for assembling the IT budget submission, a portion of this $3 billion might have been included in the IT-1 spreadsheet as either reimbursable costs or working capital funds, and some of the costs associated with DOD’s IT military personnel are not included in the IT budget submission because these personnel work on embedded or satellite system programs, which are not in DOD’s IT budget. The official also stated

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22Public Law 104-208, section 803(a).
that information is not readily available to determine the number or cost of IT military personnel erroneously omitted from the IT budget reports. However, officials from five of the six program offices that provided information about this matter told us that they planned to use military personnel during fiscal year 2004, but they did not include these costs in their respective IT budget reports because the military services, rather than the initiatives, are responsible for budgeting and accounting for these personnel.

Further, program offices did not include all indirect costs of the initiatives—that is, costs that are used jointly with other initiatives or DOD component organizations—in their fiscal year 2004 IT budget reports. Officials of both the Army and Navy CIO offices stated that program offices generally do not include all indirect costs in their IT budget reports, because these costs are budgeted by the other DOD organizations that may be stakeholders in the respective initiatives, and the program offices are not generally provided with information on the amount of these shared costs that can be attributed to their respective initiatives. These officials also stated that with a few exceptions, department organizations have neither cost accounting systems nor cost estimating processes in place to determine the amount of indirect costs that should be allocated to each IT initiative.

Conclusions

DOD has not devoted sufficient management attention and it does not have adequate management controls and supporting systems in place to ensure that its IT budget submissions provide consistent, accurate, and complete cost information for major IT initiatives. The result is that DOD, OMB, and congressional decision makers are forced to make IT funding decisions for major IT initiatives on the basis of conflicting, uncertain, and inaccurate information regarding the cost of these initiatives. Without reliable budget information, decision makers are unnecessarily impaired in their ability to execute effective departmental control and oversight by linking budgetary inputs to outputs and outcomes, to compare full budgeted and actual costs of IT initiatives, and to make decisions on the relative merits of competing initiatives.

Indirect costs include such shared costs as those for general administrative services; general research and technical support; security; employee health and recreation facilities; and operation and maintenance of buildings, equipment, and utilities.
Recommendations

To improve the consistency, accuracy, and completeness of future DOD IT budget submissions, we recommend that the Secretary of Defense direct the OSD and component CIOs, in consultation with the OSD and component Comptrollers, to increase management attention and establish the appropriate management controls and supporting systems to avoid the weaknesses described in this report, including revising the FMR and other guidance for preparing the DOD IT budget to clearly reflect these policies and procedures. At a minimum, we recommend that revisions to policies, procedures, and supporting systems ensure that

- Exhibit 300s and IT-1 spreadsheets are consistent in terms of (1) the major initiatives that are included in each report (unless otherwise explained) and (2) the funding reported for each of these initiatives;

- Exhibit 300s are complete, accurate, and internally consistent, in that (1) funding information is provided for each life cycle phase for each initiative; (2) total amounts reported for each initiative equal the sum of the individual line items for the initiative; and (3) the format used to display the funding information clearly shows the total funding amount for each initiative;

- amounts are properly categorized as development/modernization or current services in the IT budget submission, so that OMB and congressional decision makers are provided with accurate information on the funding required to (1) develop new systems or significantly improve existing systems and (2) operate and maintain existing systems;

- budget submissions are consistent in the costs that are funded with the RDT&E appropriation and those that are funded with the O&M appropriation; and

- budget submissions fully account for all relevant costs, including military personnel costs and indirect costs, to the extent that these costs can be identified and properly allocated to each initiative, so that OMB and congressional decision makers are provided with complete budget information for each initiative.

We further recommend that the OSD and component CIO offices, in consultation with the OSD and component Comptroller offices,
• assess the costs and benefits of alternative approaches for establishing cost accounting systems or cost estimating processes to determine the amount of indirect costs attributable to each IT initiative and the amounts that should be categorized as development/modernization and current services, and implement the more cost-effective approach;

• assess approaches to reduce or eliminate requirements for duplicative manual entry of information by program offices and components into systems supporting the preparation of the IT budget reports; and

• review the IT budget submission for fiscal year 2004 and the IT budget submission for fiscal year 2005 from the O&M and RDT&E appropriations and transfer, as necessary, the amounts for civilian personnel and other costs associated with IT planning or acquisition activities to the proper appropriation account, to ensure consistent use of these accounts, provide for congressional and departmental oversight of DOD’s use of appropriations accounts, and reduce the risk of violations of the Anti-deficiency Act.

Agency Comments and GAO Evaluation

DOD provided what it termed “official oral comments” on a draft of this report from the CIO, OSD, who is also the Assistant Secretary of Defense for Networks and Information Integration. In commenting, DOD either agreed or partially agreed with our recommendations and described actions that it plans to take to establish the appropriate controls and systems needed to correct many of the weaknesses described in this report, including revising the FMR. Examples of DOD’s planned actions include

• providing the Congress with a list of initiatives for which Exhibit 300s were provided to OMB, but not to the Congress, along with explanations for differences;

• negotiating with OMB a later submission date for DOD’s exhibits, to provide additional time to ensure that exhibits are reliable;

• establishing a common, consistent data source to use in producing Exhibit 300s and the IT-1 spreadsheets;

• modifying the process for producing Exhibit 300s to ensure that correct funding amounts are captured;
• using a standardized format for Exhibit 300s;

• working with OMB to ensure the use of consistent definitions of and terminology for development/modernization and current services;

• updating the FMR to clarify areas of concern or inconsistencies in (1) the information presented in Exhibit 300s, (2) the use of development/modernization and current services categories, and (3) the categorization of costs as RDT&E or O&M;

• assessing, on a departmentwide basis, the establishment of a cost accounting system;

• evaluating approaches to reduce or eliminate duplicative data entry; and

• considering appropriations realignments during the fiscal year 2006 budget cycle.

Notwithstanding DOD’s agreement with our recommendations, as well as its planned actions to improve its submissions’ consistency, accuracy, and completeness, DOD also provided mitigating reasons for the discrepancies and problems that we reported. For example, DOD stated that Exhibit 300s and IT-1 spreadsheets are not consistent in terms of the major initiatives included in each report because DOD does not necessarily report all major initiatives in the Exhibit 300s. Instead, DOD and OMB agree as to which major initiatives are to be reported in the Exhibit 300s based on a goal of reporting a dollar percentage of all initiatives. Similarly, DOD stated that its IT-1 spreadsheet does not include all relevant costs, such as military personnel costs and indirect costs, because the spreadsheet is an extract of the budget justification documents and does not include full life cycle costs or total cost of ownership. Nevertheless, DOD added that it will assess its guidance on reporting the cost of military personnel and other relevant costs.

While we do not question the information that DOD provided to explain the discrepancies and problems discussed in our report, this information does not eliminate the need to provide congressional decision makers with reliable information upon which to make informed decisions. Thus, for DOD to fully respond to our recommendations, it will need to take additional actions beyond those provided in its comments. For example, it will need to provide the Congress with a list of major initiatives included in the IT-1 spreadsheet that are not included in Exhibit 300 (with an
explanation of these differences). Also, beyond modifying the FMR, it will need to revise related guidance and implement controls to ensure that costs are correctly categorized as (1) development/modernization or current services and (2) RDT&E or O&M.

We are sending copies of this report to other interested congressional committees and the other Members of the Senate and House Committees on Armed Services; the House and Senate Committees on Appropriations, Subcommittees on Defense; the Director, Office of Management and Budget; the Secretary of Defense; the Assistant Secretary of Defense (Networks and Information Integration)/Chief Information Officer; the Under Secretary of Defense (Comptroller); and the Under Secretary of Defense (Acquisition, Technology, and Logistics). We will also provide copies to others on request. This report will also be available at no charge on our Web site at http://www.gao.gov.

If you have any questions concerning this report, please contact me at (202) 512-3439 or by e-mail at hiter@gao.gov. Other key contributors to this letter are Barbara Collier, Alison Jacobs, George L. Jones, Nick Marinos, Daniel Wexler, and Robert Williams, Jr.

Randolph C. Hite
Director, Information Technology Architecture and Systems Issues
Our objective was to determine whether the fiscal year 2004 information technology (IT) budget submission for the Department of Defense (DOD) was reliable, including identifying opportunities to improve its reliability in the future. To do so, we assessed the funding information in DOD’s primary IT budget reports to determine whether the information reported was consistent between reports, whether the reports included all the funding information that the Office of Management and Budget (OMB) requires, whether the correct budget categories and consistent appropriation types were used to fund the initiatives, and whether the submission included all costs of the initiatives.

We reviewed OMB Circular A-11 to obtain requirements and guidelines for preparing budget submissions and confirmed our understanding of the guidelines through interviews with OMB officials. We also assessed DOD’s Financial Management Regulation (FMR) and its budget submission guidance, and we interviewed DOD departmental and component officials to determine DOD’s criteria for budget submissions. Finally, we reviewed federal accounting standards to determine additional guidance for budget preparation.

To identify inconsistencies between the reports, we assessed the Exhibit 300 Capital Investment Reports and the IT-1 budget summary spreadsheet. We compared the Exhibit 300s with the IT-1 spreadsheet and not with the Exhibit 53 because the Exhibit 53 presents essentially the same information as the IT-1 spreadsheet, but in less detail. We counted the number of major initiatives that appeared in both reports, as well as the number appearing in only one of the reports. We also calculated the differences in the funding amounts between the Exhibit 300s and the IT-1 spreadsheet and made comparisons among the initiatives and components, as well as between totals, for each report. We interviewed departmental, component, and program officials to determine causes for the inconsistencies.

To select which program officials to contact, we chose a cross section of DOD’s organizations, including the Office of the Secretary of Defense; the Departments of the Air Force, Army, and Navy; and seven agencies and activities (the American Forces Information Service, Defense Contract Management Agency, Defense Human Resources Activity, Defense Information Systems Agency, Defense Security Service, TRICARE, and Washington Headquarters Service). From each program office, we obtained explanations of its funding submission related to one or more of the following issues: inconsistencies between the reports, omissions and errors
in Exhibit 300s, improper categorization of development/modernization activities, inconsistent use of appropriations, and costs that were not included in the submission.

To determine whether the reports included all information required by OMB, we analyzed the Exhibit 300 Capital Investment Reports to identify omissions and inconsistencies in the information for each initiative. We tallied the number of initiatives that omitted life cycle information. We also identified initiatives with total funding amounts that were not equal to the sum of the amounts reported for individual line items and calculated the totals by component. To determine causes for these inconsistencies, we interviewed departmental, component, and program officials.

To determine whether the correct budget categories were used to fund the initiatives, we examined programs that included activities for development and modernization and determined how their funding amounts were categorized. We interviewed program officials to determine what activities were planned and then assessed whether the budget categories were consistent with OMB criteria. We also interviewed component and departmental officials to determine the guidance they were providing to program officials, and we assessed DOD's FMR to determine whether its guidance was clear and consistent with OMB guidelines.

To determine whether consistent appropriation types were used to fund initiatives, we determined what appropriation types were included for funding development and modernization activities. We identified three program offices that were using the Research, Development, Test, and Evaluation appropriation for these purposes and seven that were using the Operation and Maintenance appropriation, and contacted them to determine the reasons that they selected these appropriations. We reviewed DOD's prior actions to correct similar inconsistencies. We also analyzed the language in the FMR for its clarity on these issues.

To determine whether the submission included all costs of the initiatives, we assessed the appropriation activities reflected in the IT-1 spreadsheet. From this assessment and interviews with program officials, we determined that many programs did not include funding for military personnel. To confirm that such costs should be included, we interviewed officials representing OMB, the DOD Comptroller, and the DOD Chief Information Officer, and we reviewed the FMR and budgeting guidance in the Statement of Federal Financial Accounting Standard Number 4, “Managerial Cost Accounting Concepts and Standards for the Federal
Government.” We also interviewed program officials to determine why they did not include funding for military personnel costs in their budget reports. We used Defense Manpower Data Center information to estimate the potential amount that military personnel costs are understated in the fiscal year 2004 IT budget submission. To do this, we calculated the difference between the cost of military personnel performing IT functions and the amount of funding in DOD’s IT budget submission that was to be funded using the Military Personnel appropriations. To estimate the cost of IT military personnel, we used Defense Manpower Data Center information on the number of military personnel performing IT work in each of the four services—Air Force, Army, Navy, and the U.S. Marine Corps—and multiplied the number at each rank for each service by the respective average annual pay and benefits. We included only active military personnel in IT duty positions in our estimate. We also assessed federal accounting standards and interviewed program officials to determine the requirements and practices for including indirect costs in budget reports.

We conducted our work at GAO and at DOD headquarters during June to October 2003 in accordance with generally accepted government auditing standards.
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