September 25, 2002

Acquisition

Defense Hotline Allegations Concerning the Procurement of the Seat Management Initiative

(D-2002-152)

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Acronyms

ACS	Affiliated Computer Services
ASD	Assistant Secretary of Defense
BPA	Blanket Purchase Agreement
C3I	Command, Control, Communications, and Intelligence
CCA	Clinger-Cohen Act
CIO	Chief Information Officer
GSA	General Services Administration
IT	Information Technology
ITIPS	Information Technology Investment Portfolio System
LAN	Local Area Network
MIPR	Military Interdepartmental Purchase Request
MOU	Memorandum of Understanding
O&M	Operation and Maintenance
OASD	Office of the Assistant Secretary of Defense
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
RFQ	Request for Quotation
SLA	Service Level Agreements
WHS	Washington Headquarters Services

INSPECTOR GENERAL
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September 25, 2002

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE)

SUBJECT: Report on Defense Hotline Allegations Concerning the Procurement of the Seat Management Initiative (Report No. D-2002-152)

We are providing this report for review and comment. We considered comments from the Deputy Assistant Secretary of Defense (Deputy Chief Information Officer) on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) comments were partially responsive. We request that the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) provide additional comments by November 25, 2002, specifically addressing how and when implementation of the Information Technology Investment Portfolio System will be mandated.

If possible, please provide management comments in electronic format (Adobe Acrobat file only). Send electronic transmission to the e-mail addresses cited in the last paragraph of this memorandum. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature.

We appreciate the courtesies extended to the staff. Questions on this audit should be directed to Mr. Terry L. McKinney at (703) 604-9288 (DSN 664-9288) (tmckinney@dodig.osd.mil) or Mr. Eric B. Edwards at (703) 604-9219 (DSN 664-9219) (eedwards@dodig.osd.mil). See Appendix C for the report distribution. The team members are listed inside the back cover.

David K. Steensma

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Deputy Assistant Inspector General
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Office of the Inspector General of the Department of Defense

Report No. D-2002-152 **September 25, 2002**
(Project Number D2001CH-0032.002)

Defense Hotline Allegations Concerning the Procurement of the Seat Management Initiative

Executive Summary

Who Should Read This Report and Why? Officials of the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) should read this report because it discusses allegations made to the Defense Hotline as well as the applicability of the Clinger-Cohen Act (Public Law 104-106) to the development of the Seat Management initiative.

Background. We performed the audit in response to allegations made to the Defense Hotline concerning the contracting for the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) Seat Management initiative and the funding of the FirstGov Web site. Under Seat Management, contractors manage the computing hardware, software, and support services that are provided to the Government on the basis of a fixed price per seat. The complainant alleged that the Deputy Chief Information Officer pressured Washington Headquarters Services to award the Seat Management contract before election day in 2000 although no urgency existed; several other problems with the contract award were present; and the Office of the Under Secretary of Defense (Comptroller) was pressured to move money prior to Inauguration Day to the General Services Administration for the DoD share of the FirstGov Web site. FirstGov is the first major Government initiative that connects citizens to the products, services, and information of the Federal Government. It provides a single Internet port of entry for governments, citizens, businesses, and community groups to access more than 20,000 Federal Web sites on a 24-hour basis.

Results. In the rush to have the General Services Administration award the blanket purchase agreement by November 6, 2001, for the Seat Management initiative, the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) inappropriately determined that the requirements of the Clinger-Cohen Act were not applicable to the $452 million blanket purchase agreement ($19 million obligated through February 2002). However, we did not substantiate the allegation that pressure was present to transfer by January 19, 2001, funding for the FirstGov Web site. The planning for the Seat Management initiative did not:

- identify the return on investment for Seat Management,
- quantify benefits and risks of Seat Management, and
- prescribe performance measures that would measure how well Seat Management would support DoD programs.

As a result, DoD was unable to assess whether a favorable return on investment and expected performance of the Seat Management initiative were realized on the General Services Administration blanket purchase agreement. On June 28, 2002, the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) terminated the blanket purchase agreement for convenience. The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) needs to ensure that future information technology procurements for that office, through the General Services Administration or another Federal agency, comply with statutory and regulatory requirements applicable to DoD. (See the Finding section for a detailed discussion of the results and recommendation.)

DoD Comments. The Principal Director, Deputy Assistant Secretary of Defense (Deputy Chief Information Officer) responded that the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) disagreed with the conclusion of the report that the Office of the Assistant Secretary did not comply with the Clinger-Cohen Act. However, the Deputy Chief Information Officer agreed that the Office of the Assistant Secretary may not have maintained adequate documentation. The Deputy Chief Information Officer stated that to rectify any real or perceived deficiencies in complying with the Clinger-Cohen Act, the Office of the Assistant Secretary is implementing the Information Technology Investment Portfolio System.

Audit Response. The Deputy Chief Information Officer comments were partially responsive. Although the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) believes that it complied with the intent of the Clinger-Cohen Act, no evidence or explanation was offered as to how it complied. We believe that officials involved with the Seat Management initiative made an erroneous and conscious decision that key requirements of the Clinger-Cohen Act did not apply. The Office of the Assistant Secretary‘s implementation of the Information Technology Investment Portfolio System provides users with the ability to support the selection, control, and evaluation phases of an information technology capital planning and investment control process. The system supports internal and external reporting requirements as defined by the Office of Management and Budget Circular No. A-11. In response to the final report, we ask that the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) provide additional comments as to how and when implementation of the Information Technology Investment Portfolio System will be mandated. We request that those comments be provided by November 25, 2002.

Table of Contents

Executive Summary i

Background 1

Objectives 3

Finding

Procurement of the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) Seat Management Initiative 4

Appendixes

A. Scope and Methodology 11
Prior Coverage 12
B. Summary of Allegations and Audit Results 13
C. Report Distribution 15

Management Comments

Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) 17
General Services Administration 19

Background

The audit was performed in response to allegations to the Defense Hotline and addresses the contracting and funding of information technology initiatives.

Seat Management. As part of the DoD Seat Management process, a contractor manages and supports the hardware, software, peripherals, networks, maintenance, education, and support services (including help desk, asset management, maintenance, and device management) to manage, operate, and maintain the Office of the Secretary of Defense (OSD) desktop environment. Hardware, software, and support service costs are combined into a desktop and provided to the Government on the basis of a fixed price per seat. With the General Services Administration (GSA) Seat Management program, a client agency determines the level of desktop computing service and support required, as well as the commercial-off-the-shelf software and hardware needed to support the mission.

Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence). The Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), (OASD[C3I]), is the principal OSD staff assistant for development, oversight, and integration of DoD policies and programs relating to the strategy of information technology (IT) for DoD. The Assistant Secretary of Defense (ASD[C3I]) serves as the Chief Information Officer (CIO) for DoD. The specific responsibilities of the CIO include overseeing the performance of IT programs and measuring program progress through system milestone reviews. The Deputy CIO was significantly involved with the Seat Management initiative and DoD funding of the FirstGov Web site.

FirstGov. FirstGov is the first major Government initiative that supports the goal of connecting citizens to the products, services, and information of the Federal Government. The program supports a single Internet port of entry that provides governments, citizens, businesses, and community groups with one-stop access to more than 20,000 Federal Web sites on a 24-hour basis. For its share of the FirstGov Web site, DoD agreed to pay approximately $4.6 million in FY 2000 through FY 2002 to GSA.

Memorandum of Understanding and Interagency Agreement for Information Technology Services and Products. GSA entered into a Memorandum of Understanding (MOU) with OASD(C3I) in July 2000 to provide support services to OASD(C3I) through blanket purchase agreements or delivery/purchase orders issued to contractors. The Deputy CIO for DoD briefed a proposal to the OSD IT Executive Committee on July 26, 2000. The Committee expressed concern that the implementation of the Seat Management initiative was moving too fast. Despite the concern, a blanket purchase agreement (BPA) with GSA was sized to accommodate all OSD Components that chose to participate in the Seat Management initiative. On July 21, 2000, OASD(C3I) entered into an interagency agreement with GSA to provide OASD(C3I) with procurement, acquisition, and project management support for outsourcing the OASD(C3I) Seat Management operational IT environment (including management of the desktop, network, and base level, as well as full life-cycle management of applications).

Blanket Purchase Agreement for Seat Management. Headquarters GSA issued a competitive Request for Quotation (RFQ) on September 22, 2000, to 18 contractors prior to awarding a single BPA for the OASD(C3I) Seat Management program. Of the 18 contractors solicited, 2 contractors submitted quotes in response to the RFQ. GSA awarded Lockheed Martin the BPA on November 6, 2000. The other contractor, Affiliated

Computer Services (ACS) Government Solutions Group, Incorporated, filed a protest but later withdrew its protest. The period of performance for the Operation and Maintenance (O&M) funded BPA was 5 base years, with five 1-year option periods, and the maximum value of orders placed under the BPA was $452 million. Under the terms of the BPA, Lockheed Martin would lease, manage, and support the hardware, software, peripherals, networks, maintenance, education, and support services to operate and maintain the OASD(C3I) Seat Management initiative.

Washington Headquarters Services. Washington Headquarters Services (WHS) is the DoD field activity that provides a broad variety of operational and support services to specified DoD Components in the National Capitol Region and the public. As the holder of funds for the OASD(C3I), WHS transfers funds to GSA by way of a Military Interdepartmental Purchase Request (MIPR), for orders placed against the IT BPA for the Seat Management initiative. DoD uses MIPRs as the primary document to order goods or services from other DoD Components, as well as other Government agencies.

Statutory and Regulatory Requirements for Information Technology

The Clinger-Cohen Act of 1996. The Clinger-Cohen Act (CCA) of 1996, Public Law 104-106, which is substantially codified at title 40, chapter 25, United States Code (40 U.S.C. 25), requires Federal agencies to implement a process for maximizing value as well as assessing and managing the risks of IT investments.

The Director of the Office of Management and Budget (OMB) is required by 40 U.S.C. 1412 to develop, as part of the budget process, a process for analyzing, tracking, and evaluating the risks and results of all major capital investments an executive agency for information systems makes. Subsequently, OMB implemented that requirement with respect to Federal agencies in OMB Circular A-130.

Office of Management and Budget Circular No. A-130. OMB Circular A-130, "Management of Federal Information Resources," issued November 30, 2000, requires that before Federal agencies make investments in information systems, they must determine if the function to be supported by the system should be performed by the agency or by the private sector or another agency, and be redesigned to improve efficiency.

Office of Management and Budget Circular No. A-11, Part 3. OMB Circular A-11, Part 3, "Planning, Budgeting, and Acquisition of Capital Assets," issued in July 2001, requires agencies to establish policies for planning, budgeting, acquiring, and managing of capital assets, including information technology.

DoD Instruction 7041.3. DoD Instruction 7041.3, "Economic Analysis for Decisionmaking," November 7, 1995, directs development of an economic analysis that assesses cost and benefits for each feasible alternative system. The economic analysis, coupled with analysis of alternative systems, allows for a full and complete basis for evaluating the feasibility of alternatives.

Objectives

The primary audit objective was to determine the validity of the allegations made to the Defense Hotline concerning the contracting for the OASD(C3I) Seat Management initiative and the funding for the FirstGov Web site. See Appendix A for a discussion of the audit scope and methodology, and a list of prior coverage related to the audit objective. See Appendix B for a discussion of the allegations made to the Defense Hotline and our conclusions on the allegations.

Procurement of the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) Seat Management Initiative

In the rush to award the BPA, OASD(C3I) inappropriately determined that the requirements of the CCA (Public Law 104-106) were not applicable to the Seat Management initiative and thus did not:

- identify the return on investment,
- quantify the benefits and risks of Seat Management, and
- prescribe performance measures that would measure how well Seat Management would support DoD programs.

The statutory requirements within the CCA were not performed because the Deputy CIO believed that the analyses to identify quantifiable benefits and risks of the investment and establish performance measures were not applicable to the Seat Management initiative; the Deputy CIO wanted the contract for the initiative awarded prior to the Presidential election in 2000, which left little time for the analyses; and the GSA contracting officer did not obtain assurances that requirements were met. As a result, DoD was unable to assess whether a favorable return on investment and expected performance of the Seat Management initiative were being realized on the GSA BPA valued at $452 million ($19 million obligated through February 2002) awarded for Seat Management. On June 28, 2002, OASD(C3I) terminated the BPA for convenience because of performance risks and the desire to have a common IT provider for the Pentagon Reservation.

Seat Management Initiative

Deputy CIO for OASD(C3I). The Deputy CIO assisted in funding cross-Government initiatives after being assigned to the Interagency CIO Council that supports the CCA. Initially, the Deputy CIO pursued the award of a Seat Management contract for all of OSD. The goal of the Seat Management initiative was to improve the quality and reliability of IT services in OASD(C3I) and OSD at a predictable cost. In March 2001, the Deputy CIO left OASD(C3I) to become president of Government Services at Commerce One, Incorporated.

Acquisition of the Seat Management IT Outsourcing Initiative. The Deputy CIO signed an MOU for IT solutions on July 14, 2000, authorizing GSA to begin the contracting action for the OSD Seat Management IT initiative. The Deputy CIO briefed a proposal to the OSD IT Executive Committee on July 26, 2000. The IT Executive Committee concluded that the Seat Management initiative should be brought along slowly to ensure that the initiative would be accomplished without failure. A high ranking official at OASD(C3I) stated the OASD(C3I) requirement for the Seat Management initiative was based on the need to convert its current IT network and desktops from the Nonclassified Internet Protocol Router Network to the SECRET Internet Protocol Router Network. OASD(C3I) stated the requirement was based on five security vulnerabilities.

- The Nonclassified Internet Protocol Router Network was vulnerable from an information assurance capability standpoint.

- C3I work was too sensitive to use unclassified networks.

- C3I users needed expanded SECRET-level connectivity with the Combined Intelligence Center and the intelligence community.

- Many C3I users needed access to classified Automatic Digital Network/Defense Message System messages at their desktops.

- Common on-line knowledge was vulnerable because it was being expanded to include programmatic information for intelligence, surveillance, and reconnaissance programs.

The main goals of the Seat Management initiative were to:

- improve the quality and reliability of IT services in C3I and OSD through Service Level Agreements (SLA);

- correct deficiencies in security, licensing, and asset management;

- identify hidden costs by maintaining technology refreshing, licensing, and asset management;

- identify costs associated with operating networks, servers, and hosting applications; and

- control cost and deliver IT services at a predictable cost.

The OASD(C3I) wanted a rapid implementation of an end-to-end solution to the security vulnerabilities mentioned previously. According to OASD(C3I) officials, they could not adequately fix their vulnerabilities because of a shortage of qualified personnel. OASD(C3I) representatives stated that the Seat Management initiative would provide a way to quickly and efficiently address security and network concerns.

On September 22, 2000, GSA issued an RFQ to 18 companies. The RFQ required that offeror proposals be submitted by October 17, 2000. A Source Selection Evaluation Board from OASD(C3I) met with an interagency rating panel of experts and support staff on October 20 and 23, 2000, to hear technical proposals submitted in response to the RFQ. Two contractors, ACS Government Solutions Group, Incorporated, and Lockheed Martin, responded to the RFQ. An interagency rating panel reviewed the two proposals submitted, and the evaluators and the source selection authority decided on October 24, 2000, that Lockheed Martin had submitted the best value proposal consistent with the evaluation factors, and should be awarded the BPA. The BPA was awarded on November 6, 2000. See Appendix B for more details concerning the acquisition of the Seat Management IT initiative.

Funding for the Acquisition. The OASD(C3I) provided GSA about $19.2 million in O&M funds from November 2000 through February 2002 to procure Seat Management services. The following table lists the interagency agreements that OASD(C3I) sent to GSA to fund the Seat Management initiative and the amount funded and billed as of February 2002.

OASD(C3I) Seat Management Funding

IA[1] Number	Date Issued	MIPR Number	Funded	Billed by LMCO[2]	Balance
21045DED	11/02/00	DHIA10042	$ 1,300,000.00	$ 1,300,000.00	$ —
21123DED	02/26/01	DSIA10101	2,000,000.00	1,998,852.23	1,147.77
21385DED	04/19/01	DSIA10137	2,000,000.00	1,897,281.35	102,718.65
21417DEC	07/03/01	DSIA10208	1,660,000.00	1,600,000.00	60,000.00
21430DEC	08/09/01	DSIA10194	300,000.00	170,290.21	129,709.79
21484DEC	09/05/01	DSIA10211	270,000.00	—	270,000.00
21485DEC	09/05/01	DWIA00152	1,257,000.00	11,206.00	1,245,794.00
21546DES	09/26/01	DHIA10230	150,000.00	150,000.00	—
21547DES	09/26/01	DHIA10228	332,046.79	332,046.79	—
21549DES	09/17/01	DHIA10224	61,201.21	61,201.21	—
22102DES	12/11/01	DHIA20047	2,140,000.00	2,140,000.00	—
22104DES	02/15/02	ERIA10239	5,230,329.00	—	5,230,329.00
22110DES	11/27/01	DHIA20030	628,530.12	628,530.12	—
22118DES	12/14/01	DHIA200360	1,864,750.41	1,864,000.00	750.41
22183DES	12/19/01	DHIA20070	50,000.00	50,000.00	—
Total			**$19,243,857.53**	**$12,203,407.91**	**$7,040,449.62**

[1] Interagency Agreement
[2] Lockheed Martin

According to an OASD(C3I) official, tasks accomplished and items procured include the project implementation of the Seat Management transition, catalog items (computers and printers), help desk, Common Access Card, call center move, and network upgrades. Lockheed Martin provided support on a labor-hour basis and billed other direct costs (such as local travel and incidental costs) on a cost-reimbursable basis.

Clinger-Cohen Act Compliance

The OASD(C3I) did not comply with provisions of the CCA to identify the return on investment, quantify benefits and risks of the initiative, and establish performance measures for use in evaluating the project.

OASD(C3I) Cost Benefit and Business Process Reengineering Analyses. OASD(C3I) officials identified the need for the Seat Management initiative based on security vulnerabilities; however, they could not internally fix their vulnerabilities because of personnel shortages. The Seat Management initiative, which provides the means to quickly and efficiently address security and network concerns, was an attempt to reengineer the OASD(C3I) business processes. To assist the evaluation, OASD(C3I) obtained a detailed cost breakdown of the proposal each vendor submitted. However, the OASD(C3I) analyses of the data were incomplete because the analyses failed to examine the feasibility of potential alternative options for improving the security vulnerabilities and did not establish quantifiable performance metrics for the Seat Management initiative. According to OMB Circular A-130 and OMB Circular A-11, Part 3, an agency must demonstrate how it manages its IT investments. The OASD(C3I) did not identify a quantifiable

measurement for determining the net benefits and risk associated with its Seat Management initiative. In the future, OASD(C3I) should ensure that IT procurements comply with guidance in OMB Circular A-130 and OMB Circular A-11, Part 3.

Concerns With Seat Management. We identified two written requests from other DoD organizations for OASD(C3I) to perform the required analyses before the Seat Management initiative began. The Director of Information, Operations, and Reports, WHS in an August 9, 2000, memorandum to the Acting Director, Network Operations Division, OASD(C3I) voiced reservations about the Deputy CIO decision to contract for the Seat Management function, stating that, "the size and scope of the project had not been made clear." The Director of Information, Operations, and Reports, WHS further stated that the Information Technology Reform Act (referred to in this report as the CCA) emphasizes the requirements of:

- cost-benefit analysis,
- risk-adjusted return on investment, and
- application of specific quantitative and qualitative criteria for comparing and prioritizing alternative information systems investment projects.

The Director of Administration and Management, OSD expressed the following concerns in a September 12, 2000, memorandum to OASD(C3I).

- Requirements analyses of the IT environments in OSD were absent, specifically, "the need to re-engineer their business process before investing in IT as required by the CCA."
- A lack of understanding of the overall OSD IT environment and the speed at which the outsourcing of IT being pursued existed.
- The outsourcing initiative draft statement of objectives and related business requirements make OSD vulnerable to steadily increasing and uncontrolled costs.

The Director further noted that under DoD Directive 8220.1, "Single Agency Manager for Pentagon Information Technology Services," March 1, 1995, the Network Infrastructure Services Agency-Pentagon was responsible for the renovated Pentagon backbone network and was currently managing the OSD legacy backbone. The Director stated that separating the "OSD backbone" by giving it to a third party might incur "finger pointing" if there were problems. The Director noted that OASD(C3I) needed to acknowledge the DoD Directive and limit network outsourcing to OSD subnetworks because of the eventual linkup of all OSD subnetworks. The Director's concerns should have caused OASD(C3I) to reexamine the feasibility of potential alternative options for improving its security vulnerabilities, or at least ensure that the Seat Management initiative would mesh with the other OSD components.

No documentation was present that demonstrates OASD(C3I) responded to the written inquiries concerning the required analyses. We asked why the required analyses were not performed. According to OASD(C3I) officials, the Deputy CIO stated that the development of documentation was unnecessary. OASD(C3I) representatives also stated that the Deputy CIO directed them to focus on completing the statement of objectives, and subsequently, never responded to the two inquires WHS and the Director of Administration and Management made. According to a high ranking OASD(C3I) official, the Deputy CIO

did not ensure that OASD(C3I) completed the required analyses prior to initiation of the Seat Management IT procurement despite requests by the Director of Administration and Management for OSD.

Contracting Officer Authority and Responsibilities. The DoD Deputy CIO signed an MOU in July 2000 authorizing GSA to begin contracting functions of the OSD Seat Management IT initiative. The GSA contracting officer stated that there was never any discussion with officials at OASD(C3I) regarding the requirements of CCA and if the Act requirements had been satisfied. Further, the contracting officer stated that OASD(C3I) was responsible for ensuring that the analyses were performed. However, according to Federal Acquisition Regulation 1.602, no contract shall be entered into unless the contracting officer ensures that all requirements of law, executive orders, regulations, and all other applicable procedures have been met. The GSA contracting officer should have obtained assurances that the CCA requirements were met. We referred this issue for further review to the Inspector General of GSA.

Status of Seat Management Initiative

In December 2001, OASD(C3I) officials stated that they were becoming increasingly dissatisfied with the level of service Lockheed Martin was providing, because of slow progress by Lockheed Martin from initial operational capability to full operational capability. We requested that OASD(C3I) provide specific instances when Lockheed Martin was unable to perform taskings under the BPA. OASD(C3I) officials stated they had just begun to document performance issues. If Lockheed Martin was not performing at designated levels, increased risks of cost escalations and the Seat Management initiative failing to provide the designated services existed. As of February 15, 2002, approximately $19.2 million had been obligated on the Seat Management initiative, and $12.2 million had been spent.

We contacted OASD(C3I) officials to obtain an update on the status of the Lockheed Martin performance. On February 21, 2002, an OASD(C3I) official stated that OASD(C3I) was closely monitoring the Seat Management BPA with Lockheed Martin for three reasons. First, under Program Budget Decision 431R, local area networks (LANs) are to be converted to a sole-source provider for common IT services throughout the Pentagon Reservation. OASD(C3I) is the first DoD Component designated to convert its LANs. The development will nullify the original assumption for creating the BPA with Lockheed Martin, and will make holding Lockheed Martin accountable to service levels that will be beyond its control difficult. Second, the economies of scale will not be achieved with the IT environment parceled out to various organizations. Finally, other OSD Components have not embraced the BPA as envisioned when the initiative began. The developments, in addition to the failure to identify the return on investment and quantify benefits and risks of Seat Management, or prescribe performance measures to determine how well Seat Management would support DoD programs, were sufficient grounds for OASD(C3I) to reevaluate the entire effort. On June 28, 2002, OASD(C3I) terminated the BPA for convenience.

FirstGov Web Site

Development of FirstGov. A Presidential memorandum issued on December 17, 1999, asserted the need for the development of a system for helping citizens gain one-stop access

to Government information and services. In September 2000, GSA responded to the Presidential memorandum by launching the FirstGov Web site with funding the Federal CIO Council and 22 other Federal agencies provided. The Federal CIO Council serves as the principal interagency forum for improving practices in the design, modernization, use, sharing, and performance of Federal Government agency information resources. The Deputy CIO was a member of the Federal CIO Council.

FirstGov Funding Pressure. We did not substantiate the allegation that the Office of the Under Secretary of Defense (Comptroller) was pressured to move money to GSA prior to the 2000 Presidential Inauguration for the DoD share of the FirstGov Web site. On June 26, 2001, WHS personnel stated that the urgency of obtaining funds for the FirstGov Web site stemmed from senior DoD officials participating in the Federal CIO Council meetings during FY 2000. We reviewed meeting minutes dated from February 24, 2000, through July 18, 2001. However, none of the minutes reviewed indicated discussions concerning the urgency of obtaining funds for the DoD portion of the FirstGov Web site. See Appendix B for a discussion of the details concerning the FirstGov allegation.

Conclusion

Prior to GSA awarding the Seat Management initiative valued at $452 million, the OASD(C3I) did not adequately plan for the acquisition of the Seat Management initiative because it failed to identify the return on investment and quantify benefits and risks of Seat Management, or prescribe performance measures that would measure how well Seat Management would support DoD programs. As a result, the CCA may have been violated. Further, DoD will be unable to assess whether the cost benefits and performance of the Seat Management initiative are being realized. In addition, no guarantee existed that the BPA awarded was in the best interest of the Government, considering that OASD(C3I) terminated the BPA with Lockheed Martin for Seat Management services, although approximately $19.2 million had been obligated as of February 2002.

Recommendation, Management Comments, and Audit Response

We recommend that the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) issue guidance to the staff that future information technology procurements for the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), through the General Services Administration or another Federal agency, must comply with guidance in the Office of Management and Budget Circular No. A-130 (issued in November 2000), Part 3 of the Office of Management and Budget Circular No. A-11, DoD acquisition standards, and the Clinger-Cohen Act.

DoD Comments. The Principal Director, Deputy ASD (Deputy CIO) responded that OASD(C3I) disagreed with the draft report conclusion that OASD(C3I) did not comply with the CCA, but admitted that OASD(C3I) did not maintain adequate documentation. The Deputy CIO stated that OASD(C3I) is implementing the Information Technology Investment Portfolio System (ITIPS) to rectify any real or perceived deficiencies in complying with the CCA.

Audit Response. The Deputy CIO comments were partially responsive. The Deputy CIO states that OASD(C3I) believes that it complied with the intent of the CCA but offered no

support or details as to how that conclusion was reached. To the contrary, we believe that the Deputy CIO made a conscious decision that certain requirements of the CCA did not apply to the Seat Management initiative and did not follow those requirements. Therefore, it makes sense that no documentation exists showing that the CCA was followed. The OASD(C3I) implementation of ITPS is a positive step and should meet the intent of the recommendation. ITIPS provides users with the ability to support the selection, control, and evaluation phases of an IT capital planning and investment control process. The system supports internal and external reporting requirements as defined by OMB Circular A-11. Further, ITIPS assists managers and staff involved in IT planning assess IT initiatives in terms of costs, risks, and expected returns. In response to the final report, we ask that the ASD (C3I) provide additional comments as to how and when implementation of ITPS will be mandated.

GSA Comments

The Assistant Commissioner, Office of Information Technology Solutions, GSA responded and agreed that prior to the placement of the Seat Management order on behalf of DoD, the GSA contracting officer should have verified that OASD(C3I) had performed a proper analysis in accordance with the requirements of the CCA. GSA stated that it intends to review standard procedures and ensure that client agencies are cognizant of the requirements of the CCA, as well as other laws, regulations, policies, and executive orders prior to entering into contracts on behalf of GSA clients.

Appendix A. Scope and Methodology

Work Performed. We reviewed 15 MIPRs OASD(C3I) issued, valued at $19 million, related to the Seat Management initiative. We interviewed personnel involved with the procurement at OASD(C3I) headquarters, GSA, and WHS. We also obtained and reviewed contractual and programmatic documentation from Lockheed Martin, OASD(C3I), GSA, and WHS. We reviewed applicable laws, regulations, policies, and procedures relating to IT procurements. The documentation we reviewed covered the period from July 2000 through March 2002.

We performed this audit from July 2001 through May 2002 in accordance with generally accepted government auditing standards. We did not review management controls because the audit was limited to the review of the Defense Hotline allegations. Furthermore, the review was limited to issues concerning one BPA. To render a conclusion on the management controls, we would have needed to review more contract actions. We did note that controls did exist but were not followed in this case. We relied on data from Lockheed Martin to determine the amount of work subcontracted to ACS, but we did not verify the data. In addition, we relied on data from OASD(C3I) to determine the amount Lockheed Martin billed for the Seat Management initiative, but we did not verify the data.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the DoD Systems Modernization high-risk area.

Use of Computer-Processed Data. We relied on a computer-generated listing from the GSA database of Interagency Agreement Amendments processed through OASD(C3I). We did not verify the accuracy of the entire GSA listing, but the numbers and amounts of the Interagency Agreement Amendments that we examined agreed with the GSA list. Accordingly, we believed the GSA listing could be relied upon for our audit purposes.

Use of Technical Assistance. We obtained legal assistance from the Office of General Counsel, DoD concerning OASD(C3I) compliance with laws and regulations pertaining to the CCA, Lockheed Martin's protest settlement, and potential conflicts of interest.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and within GSA (Washington, D.C.) and Lockheed Martin.

Prior Coverage

During the last 5 years, the Inspector General of the Department of Defense (IG DoD), and the Inspector General, GSA issued reports that discussed DoD funding for procurements of support services and information technology through the GSA Information Technology Fund.

IG DoD

IG DoD Report No. D-2002-103, "Certification of the Reserve Component Automation System," June 14, 2002

IG DoD Report No. D-2000-151, "Acquisition of the Defense Joint Accounting System," June 16, 2000

Inspector General, General Services Administration

IG GSA Report No. A001031, "Review of Center for Information Security Services Federal Technology Service," February 22, 2001

Appendix B. Summary of Allegations and Audit Results

The allegations and a summary of the audit results pertaining to each allegation are provided below.

Allegation 1: The Deputy CIO pressured WHS to award the Seat Management contract before election day 2000 although no urgency existed.

Audit Results: The allegation was partially substantiated; however, no material effect existed for having the contract awarded before the 2000 Presidential election (November 7).

On November 3, 2000, the Deputy CIO's staff informed WHS personnel that the Deputy CIO wanted the contract awarded before the Presidential election. The Deputy CIO staff cited no reasons for awarding the contract before this date.

WHS requested that OASD(C3I) supply a written statement of urgency explaining the need to award a contract for its IT outsourcing initiative before the Presidential election. On November 4, 2000, OASD(C3I) sent WHS, Directorate for Information, Operations, and Reports an e-mail concerning the justification for the urgency of the OASD(C3I) outsourcing contract that stated, "OASD has an urgent requirement to convert its default IT network and desktops from the Non-classified Internet Protocol Router Network (NIPRNET) to the Secret Internet Protocol Router Network (SIPRNET)." However, we found no documentation that directly stated that the Deputy CIO wanted the Seat Management contract awarded before the Presidential election of 2000.

Allegation 2: No cost benefit analysis or business process reengineering was done prior to the outsourcing of the OASD(C3I) Seat Management IT initiative and, subsequently, the Clinger-Cohen Act was violated.

Audit Results: The allegation was substantiated in part. Evidence exists that OASD(C3I) performed cost benefit and business process reengineering analyses during the preliminary planning stages of the IT outsourcing project. However, the OASD(C3I) analysis was inadequate and failed to examine the feasibility of potential alternative options for improving its security vulnerabilities and did not establish quantifiable performance metrics for the Seat Management initiative. See the Finding for additional discussion of this matter.

Allegation 3: The IT contractor was pre-selected.

Audit Results: The allegation was unsubstantiated. We found no specific documentation substantiating the claim that the contracting for the IT Seat Management initiative was directed to a specific contractor. The OSD IT initiative was competitive and an RFQ with a short response time (less than 1 month) was issued to 18 contractors.

The Seat Management initiative was a best value procurement. Best value is defined as the ability to deploy services with a marked improvement in the quality of IT services and the ability to maintain a high level of service throughout the life of the contract. The evaluation factors were technical, past performance, and price. Of the 18 RFQs issued, a qualified team reviewed the 2 proposals submitted, and the evaluators and the source

selection authority arrived at the conclusion that Lockheed Martin had submitted the best value proposal consistent with the evaluation factor, and should be awarded the BPA.

Allegation 4: OASD(C3I) used funds appropriated for their mission needs to outsource an IT project.

Audit Results: The allegation was substantiated, but no material effect existed for mission funds being allocated to augment the IT budget.

Allegation 5: Lockheed Martin gave part of its newly awarded contract to a protester so that the protest would be dropped.

Audit Results: The allegation was substantiated, but we are unaware of any negative cost impact that resulted from the settlement of the protest. As of November 6, 2001, ACS had received $25,000 of subcontract work from Lockheed Martin for components of hardware as established within the December 6, 2000, Settlement Agreement.

Allegation 6: The Office of the Under Secretary of Defense (Comptroller) was pressured to move money to GSA on January 19, 2001, prior to Inauguration Day for the DoD share of the FirstGov Web site.

Audit Results: We did not substantiate the allegation. See the Finding for additional discussion of this matter.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
    Deputy Chief Financial Officer
    Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
Director, Defense Procurement

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

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

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Inspector General, General Services Administration

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Assistant Secretary of Defense (Command, Control, Communications and Intelligence) Comments

DEPARTMENT OF DEFENSE
6000 DEFENSE PENTAGON
WASHINGTON, DC 20301-6000
August 22, 2000

CHIEF INFORMATION OFFICER

MEMORANDUM FOR INSPECTOR GENERAL, DOD

SUBJECT: Report on Hotline Allegations Concerning the Procurement of the Seat Management Initiative (Project No. D2001CH-0032.002)

C3I believes that it did comply with the intent of Clinger-Cohen Act but may have failed to retain adequate documentation. C3I has taken steps to rectify any real or perceived deficiencies in complying with Clinger-Cohen. One step C3I is undertaking is to implement the Office of Management and Budget's recommended Information Technology Investment Portfolio System (ITIPS).

ITIPS, which is maintained by The Federal CIO Council, tracks the planning, acquisition, and operations of Automated Information Systems (AIS) and Information Technology (IT) investments and complies with Federal reporting requirements, such as those found in the Government Performance and Results Act of 1993, the Paperwork Reduction Act of 1995, and the Clinger-Cohen Act of 1996.

C3I believes that by implementing ITIPS it will establish an auditable and repeatable process for complying with Clinger-Cohen OMB Circular No. A-11, and A-130.

Margaret E. Myers
Principal Director
Deputy Assistant Secretary of Defense
(Deputy CIO)

General Services Administration Office of Information Technology Solutions Comments

GSA

GSA Federal Technology Service

July 31, 2002

MEMORANDUM FOR EUGENE S. WASZILY
ASSISTANT INSPECTOR GENERAL FOR AUDITING (JA)

FROM: ROBERT E. SUDA
ASSISTANT COMMISSIONER
OFFICE OF INFORMATION TECHNOLOGY SOLUTIONS (TF)

SUBJECT: GSA RESPONSE TO DRAFT AUDIT FINDING

Thank you for the opportunity to respond to a draft audit report prepared by the Office of the Inspector General of the Department of Defense (DOD IG) entitled "Hotline Allegations Concerning the Procurement of the Seat Management Initiative". Although a number of allegations were audited, this Memorandum only addresses the partially substantiated allegation pertaining to the General Services Administration (GSA).

The draft report includes a finding that the GSA contracting officer did not ensure that all requirements of law, executive orders, regulations, and all other applicable procedures had been met, as required by FAR 1.602, before entering into the contract on behalf of DOD. Specifically, the report states that the Office of the Assistant Secretary of Defense (OSAD) Command, Control, Communications, and Intelligence (C3I) did not comply with the Clinger-Cohen Act (CCA) provisions to identify the return on investment, quantify benefits and risks of the initiative, and establish performance measures for use in evaluating the project.

As a result of the audit performed, the DOD IG states in the draft report that the GSA contracting officer should have obtained assurances that the requirements of the CCA were met. We agree that, prior to placement of the Seat Management Order on behalf of DOD, the GSA contracting officer should have verified that OASD (C3I) had in fact performed a proper analysis in accordance with the requirements of the CCA. Although the Memorandum of Understanding between DOD and GSA Federal Technology Service dated July 14, 2000, stated that "The client shall comply fully with the client agency's procurement regulations and policies", GSA contracting officers generally work diligently with clients to ensure that all requirements of law, executive orders, regulations, and all other applicable procedures have been met. We intend to review our standard procedures to ensure that client agencies are cognizant of requirements of the CCA, as well as other laws, regulations, policies and executive orders, prior to entering into contracts on their behalf.

Please feel free to contact Peter Fridman of my staff at (703) 306-7501, if you have any questions.

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Fairfax, VA 22030-2213
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Team Members

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

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