

January 6, 2006



Financial Management

Report on Army Management of the Army Game Project Funding (D-2006-043)

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Acronyms

ADA	Antideficiency Act
AGP	Army Game Project
AIS	Automated Information System
ASA(M&RA)	Assistant Secretary of the Army for Manpower and Reserve Affairs
COTS	Commercial-off-the-Shelf
FMR	DoD Financial Management Regulation
IT	Information Technology
MOVES	Modeling, Virtual Environments and Simulation Institute
MIPR	Military Interdepartmental Purchase Request
NPS	Naval Postgraduate School
OEMA	Office of Economic and Manpower Analysis
O&M	Operation and Maintenance
RDT&E	Research, Development, Test and Evaluation



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

January 6, 2006

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY FOR
MANPOWER AND RESERVE AFFAIRS
NAVAL INSPECTOR GENERAL

SUBJECT: Report on Army Management of the Army Game Project Funding
(Report No. D-2006-043)

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

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Department of the Army comments were nonresponsive. We request additional comments on all Recommendations. Management comments should include for each recommendation concurrence or nonconcurrence, corrective actions planned, and estimated date of completion. We request that the Assistant Secretary of the Army (Manpower and Reserve Affairs) provide comments on all Recommendations by March 6, 2006.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to AudDFS@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Byron B. Harbert at (303) 676-7392 (DSN 926-7392) or Mr. Jeffrey A. Lee at (303) 676-7429 (DSN 926-7429). The team members are listed inside the back cover. See Appendix B for the report distribution.

A handwritten signature in black ink, appearing to read "Paul J. Granetto".

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Department of Defense Office of Inspector General

Report No. D-2006-043

January 6, 2006

(Project No. D2004-D000FD-0146.001)

Army Management of the Army Game Project Funding

Executive Summary

Who Should Read This Report and Why? Army financial management and procurement personnel should read the reports in this series. The report discusses the Army management and funding of the Army Game Project.

Background. In May 2000, the Assistant Secretary of the Army for Manpower and Reserve Affairs and President of Naval Postgraduate School entered into a memorandum of agreement. The memorandum of agreement called for the Naval Postgraduate School to develop a state-of-the-art video game for the Army. The Naval Postgraduate School engaged the Modeling, Virtual Environments and Simulation Institute, an institute within the Naval Postgraduate School, to perform the research and development work. The Army's purpose for having the game developed was to educate potential recruits on the missions and functions of the Army as well as enhance recruiting opportunities. The game simulates the highly technological nature of modern Army warfare. The Army believed the game would stimulate interest and assist in meeting enlistment goals.

In March 2004, the Naval Postgraduate School received a memorandum from the Army that cited allegations of project mismanagement. As a result, the Naval Postgraduate School management contacted the Naval Inspector General and requested they look into the allegations the Army raised. However, because the issues surrounding the allegations involved an Army organization and the Army funded the project in question, the Naval Inspector General referred the issue to the DoD Office of Inspector General for Auditing. This is the second in a series of two reports regarding the development and management of the Army Game Project. The first report, D-2005-103, was issued on August 24, 2005.

Results. The Army did not properly fund the Army Game Project and may have violated the Antideficiency Act. Specifically, the Army:

- did not use the correct appropriation to fund the Army Game Project,
- did not fully fund the Army Game Project from obligation authority available at the time the Army Game Project was issued and accepted, and
- obligated and expended Army Game Project funds for items that did not support the development of the Army Game Project.

As a result, DoD Financial Management Regulation funding requirements were not met, which may have caused violations of the Antideficiency Act. The Assistant Secretary of the Army for Manpower and Reserve Affairs should establish procedures that ensure project orders are funded with the DoD Financial Management Regulation prescribed appropriation and are fully funded in the fiscal year that project orders are issued and

accepted. Procedures that ensure the funds for project orders are expended in accordance with the DoD Financial Management Regulation should also be established.

Further, the potential Antideficiency Act violations should be reported in accordance with the DoD Financial Management Regulation. (See the Finding section of the report for the detailed recommendations.)

Management Comments and Audit Response. The Principal Deputy Assistant Secretary of the Army (Manpower and Reserve Affairs) did not comment on our report recommendations. However, comments were received on the finding. Those comments were considered nonresponsive. Management concurred with one part of the finding and nonconcurred with two parts of the finding. We do not agree with the Army that they used the correct appropriation to fund the Army Game Project, and that they properly obligated and expended Army Game Project funds for items that supported the Project. Further, Army did not provide details on corrective actions taken on failing to fully fund the Army Game Project from obligation authority available at the time the Project was issued and accepted. We request that the Assistant Secretary of the Army (Manpower and Reserve Affairs) provide comments on the final report by March 6, 2006. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

The Naval Inspector General referred to us allegations an Army organization made regarding management of an Army-funded research and development project at the Naval Postgraduate School (NPS). However, during the audit, Army mismanagement of both the Army Game Project (AGP) funding and expenditure of AGP funds were noted. This report discusses those issues.

Development of the Army Game. In May 2000, the Assistant Secretary of the Army for Manpower and Reserve Affairs (ASA[M&RA]) and President of NPS entered into a memorandum of agreement for NPS to develop a state-of-the-art video game for the Army. The ASA(M&RA) provided funds to NPS to complete the tasks of the memorandum of agreement. The funds were provided in the form of a project order. NPS engaged the Modeling, Virtual Environments and Simulation Institute (MOVES), an institute within NPS, to perform the research and development work. The Army's purpose for having the game developed was to educate potential recruits on the missions and functions of the Army as well as enhance recruiting opportunities. The game simulates the highly technological nature of modern Army warfare.

Army officials believed the game would stimulate interest among potential recruits and assist in meeting enlistment goals. The Director, Office of Economic and Manpower Analysis (OEMA) under the ASA(M&RA), developed the concept for the Army game and subsequently served as the Manager of AGP. In that capacity, he managed the development and operational phases of AGP. Criteria for managing project orders are contained in DoD 7000.14-R, DoD "Financial Management Regulation" (FMR).

Objectives

Our overall objective was to evaluate both the Army funding of AGP and the Army expenditure of AGP funds. See Appendix A for a discussion of the scope and methodology and prior coverage.

Management Control Program Review

This review was performed as part of the audit regarding allegations of project mismanagement of AGP by NPS (report D-2005-103, August 24, 2005). Although announced for the audit of NPS, review of the management control program was not part of the review of the Army funding of AGP and Army expenditure of AGP funds. Therefore, we did not evaluate the management control program as it related to the Army funding of AGP and Army expenditure of AGP funds.

Army Management of the Army Game Project Funding

The Army did not properly fund AGP and may have violated the Antideficiency Act (ADA). Specifically, the Army

- did not use the correct appropriation to fund AGP,
- did not fully fund AGP from obligation authority available at the time the AGP was issued and accepted, and
- obligated and expended AGP funds for items that did not support the development of AGP.

Those conditions occurred because the Manager of AGP was unaware of the financing requirements prescribed in the DoD FMR, and the Office of the ASA(M&RA) did not have a process for ensuring that regulatory requirements were met. As a result, DoD FMR funding requirements were not adhered to, which may have caused violations of ADA.

Guidance on Appropriations, Project Order Funding, and Expenditure of Project Order Funds

Congress allows DoD activities to acquire goods or services from other DoD activities through a process that DoD FMR, Volume 11A, "Reimbursable Operations, Policy and Procedures," Chapter 2, identifies as project orders. The DoD FMR stipulates that the performance period for a project order may extend beyond the appropriation expiration date but not beyond the point the appropriation is cancelled, which is generally 5 years after the appropriation expires for new obligations. Additionally, receipt and acceptance of a project order is the source of obligation authority for the DoD entity performing the project order. This allows the project performer to incur obligations against the funding appropriation, even if the appropriation expired.

Appropriations. DoD Comptroller memorandum, "Clarification of Policy - Budgeting for Information Technology (IT) and Automated Information Systems (AIS)," issued October 26, 1999, provides guidance on budgeting for IT and AIS in response to a House Appropriations Committee concern that DoD was not complying with existing DoD FMR requirements on development and acquisition of IT and AIS. The memorandum also provides budgeting guidelines designed to help determine how to program and budget for IT systems. The guidelines are contained in Volume 2A, "Budget Formulation and Presentation," Chapter 1, "General Information," of the DoD FMR. Paragraph 010212, Budgeting for IT and AISs, subparagraph B provides the following guidance.

Development, test and evaluation requirements, including designing prototypes and processes, should be budgeted in the Research, Development, Test and Evaluation (RDT&E) appropriations. The RDT&E funds should be used to develop major upgrades increasing the performance envelope of existing systems, purchase test articles, and conduct developmental testing and/or initial operational test and evaluation prior to system acceptance. In general, all developmental activities involved in bringing a program to its objective system are to be budgeted in RDT&E. Commercial-off-the-shelf (COTS) systems that require engineering design, integration, test, and evaluation to achieve the objective performance will be budgeted in RDT&E.

Congressional Concern. The House Committee on Appropriations expressed concern in both 1999 and 2000 about the funding of IT systems in DoD. The Committee was concerned with DoD use of operation and maintenance (O&M) appropriations for purposes inconsistent with that appropriation. The Committee specifically cited that use of O&M appropriations to finance development or procurement of IT resources that, in accordance with the DoD FMR, should have been financed either with RDT&E or procurement appropriations.

Funding Project Orders. The DoD FMR requires that DoD Components fully finance project orders from obligation authority that is current at the time the project order is issued and accepted. Additionally, once the activity performing the project order accepts it in writing, the amount of the order must be recorded in the requesting activity's financial records as an obligation for the amount stated in the order. The DoD FMR also provides that issuance of a funded order (that is, project orders) in excess of available funds may result in a violation of ADA.

Expending Funds in Support of the Project Order. According to the DoD FMR, the agency performing the project order may obtain component parts by placing subsidiary orders with Government agencies, which includes DoD agencies. However, the DoD FMR requires that the parts be assembled in the end-item delivered to the requester. This requirement prevents, among other things, illegally continuing availability of appropriations beyond the period Congress authorized. For example, obligating project order funds, financed by an expired appropriation, to purchase goods or services not assembled in the end-item would violate subsection 1502(a), title 31, United States Code, (31 U.S.C. 1502[a]), which is discussed later.

Antideficiency Act. The Government Accountability Office, Appropriations Law Manual discusses the ADA and the availability of appropriations, while the DoD FMR prescribes procedures for investigating potential ADA violations.

Chapter 5 of Government Accountability Office, "Principles of Federal Appropriations Law," third edition, volume 1, January 2004, discusses 31 U.S.C. 1341(a), (references to ADA in this report are to 31 U.S.C. 1341(a), one of the ADA statutes). The ADA is codified in a number of sections of title 31 of the United States Code (specifically, 31 U.S.C. 1341(a), 1342, 1349 through 1351, 1511(a), 1512 through 1519). The purpose of those statutory provisions—known

collectively as the ADA—is enforcing the powers of the purse that resides in Congress with respect to the purpose, time, and amount of expenditures the Federal Government makes.

Violations of other laws may trigger violation of ADA provisions. Examples of laws include the “bona fide needs rule,” 31 U.S.C. 1502(a); the “purpose statute,” 31 U.S.C. 1301(a); and violations of various statutory spending limitations such as 10 U.S.C. 2805, “Unspecified minor construction.” Where this audit found potential violations of the ADA, the report refers specifically to 31 U.S.C. 1341(a)(1)(A) and (B). ADA prohibits that an officer or employee of the U.S. Government

- make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation, and
- involve the Government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law.

Chapter 5 also discusses 31 U.S.C. 1502(a), which provides

The balance of an appropriation . . . limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title.

Because a project order is similar to a contract, an appropriation used to finance the project order remains available to complete the project order.

DoD FMR, Volume 14, Chapter 3, stipulates that upon learning of or detecting a possible violation, the individual concerned shall, within 10 working days, report the possible violation through the chain of command. The Army should inform the Director of Resource Management at the Service activity or the person holding the equivalent position of any potential violations. In addition, the Director of Resource Management should immediately notify the commander responsible for the allowance/allotment involved in the alleged violation. Such a notification is referred to in the Army as the “Flash Report—Potential Antideficiency Act Violation.”

Correct Appropriation to Fund Development of AGP

Although development of AGP was consistent with the DoD FMR definition of an IT resource for which the DoD FMR required financing from an RDT&E appropriation, the Army financed the project from O&M appropriations.

IT resources can be developed from a COTS package. However, if the COTS package is further developed to meet a requester’s specified performance, the DoD FMR requires purchase of the COTS package and further development of that COTS package to be financed from an RDT&E appropriation.

NPS used the Unreal Engine, a COTS package, for initial development of AGP. Programmers wrote game code and scripts that produced a unique atmosphere and identity for AGP. Written on top of the Unreal Engine, that code incorporated all AGP game assets into a coherent interactive experience.

The AGP was developed by NPS to attain the objective performance the Army specified. Therefore, as both the DoD Comptroller memorandum and the DoD FMR require, the Army should have financed AGP from an RDT&E appropriation rather than Army O&M appropriations.

Fully Funded Project Order

In addition to incorrectly using O&M funds to finance AGP, the Army did not fully fund the project order, as the DoD FMR requires, with funds available when the project order for the AGP was placed. The Army provided NPS with eight DD Forms 448, Military Interdepartmental Purchase Requests (MIPRs), over 4 years, citing O&M funds in each of those 4 years. The MIPRs totaled \$13,412,943. The Army issued and NPS accepted the AGP in May 2000. Therefore, AGP should have been fully funded from obligation authority available in FY 2000. Of those eight MIPRs, seven totaled \$9,912,984 and cited funds from fiscal years after FY 2000. If sufficient FY 2000 funds were not available to fund the project, issuance of the AGP project order may have violated ADA.

Army Expenditure of AGP Funds

OEMA received subsidiary orders for AGP totaling \$2,466,500. However, OEMA expended \$2,011,100 of those funds on eight items not assembled in the end-item delivered to the Army as the DoD FMR requires. Those expenditures were for operational support or modification of the video game after development and delivery of AGP by NPS. Because those expenditures did not support development of AGP, OEMA may have violated ADA if sufficient O&M or RDT&E funds, as appropriate, were not available to finance those acquisitions.

Inappropriate Funding and Expenditures

The AGP Manager was not aware of the financing and expenditure guidance the DoD FMR prescribed. Additionally, the Office of the ASA(M&RA) did not have a process that would ensure financing of project orders the office issued and expenditure of project order funds were in accordance with limitations imposed by the DoD FMR.

Conclusion

Violations of the ADA may have occurred. As a result, the Army should perform an ADA investigation conducted in accordance with the DoD FMR and applicable regulations. Additionally, the Army should refinance AGP with the required RDT&E appropriation as well as finance any future orders in accordance with the DoD FMR.

Management Comments on the Finding and Audit Response

Management Comments on the correct appropriation to fund AGP. The Army Principal Deputy Assistant Secretary (Manpower and Reserve Affairs) provided comments dated November 23, 2005, and stated that the Army Game Project (AGP) was properly funded using operations and maintenance (O&M) funds. According to the comments, AGP was a part of Army's marketing strategy for recruiting. They concluded that because recruiting efforts are normally funded with O&M, AGP was appropriately funded and that AGP was not a development effort. Instead, they stated that AGP was put together using a commercial off-the-shelf software package that was further modified by adding models, animations, scenarios, and sound files. They indicated that the process was not unlike adding specific content to an Excel spreadsheet. Army management also stated that DoD IG audits, the DoD FMR, and Federal Financial Accounting Standards Board Interpretation 6 supports their belief that AGP is not an information technology (IT). Finally, Army indicated in their comments that AGP does not fall into the category of IT because it does not transmit information or data for any objective purpose.

Audit Response. We do not agree with the Army that AGP was properly funded using O&M funding. As discussed in the finding in this report, AGP is an IT product which requires it be funded using Research, Development, Test, and Evaluation (RDT&E) funding. We disagree with the Army's opinion that since O&M funds are normally used to fund recruiting efforts, funding of AGP was proper. The type of funding used to make purchases is dependent on what is specifically purchased, and the development of computer software must be purchased with RDT&E funds.

In addition, we do not agree with the Army's response that AGP was not a development project. Army management acknowledged that the creation of the AGP computer video game was a research and development effort in their Memorandum of Agreement (MOA) with the Naval Postgraduate School (NPS). In the MOA, the Army instructed the developer (NPS) to conduct necessary research and development to create a state-of-the-art Army computer game that maximizes the elements of adventure and attribute building. In fact, a developmental effort encompassing the specialized skills of many individuals was required to bring the video game to fruition. For example, the NPS Modeling, Virtual Environments and Simulation (MOVES) Institute employed several technical experts, including designers, artists, modelers, sound engineers, and

animators working with programmers writing game code and scripts to produce the games unique atmosphere and identity. AGP programmers wrote code on top of the game engine to incorporate all assets into a state-of-the-art interactive computer game.

The Army stated that justification for not classifying AGP as IT is contained in DoD IG audits and the FMR. The Army cited one IG report (No. D-2000-063, dated December 17, 1999). We did not find anything in this report or the FMR that would support the Army's conclusion. Also, the Army cites Financial Accounting Standards Board (FASB) Interpretation 6 as further evidence that the AGP should not be accounted for as an IT RDT&E effort. We do not agree that the prescribed accounting treatment for software pertains in any manner to the Army's determination of which funds to use for such purchases. In this case, both public law and the FMR define requirements for funding IT acquisitions and related RDT&E projects. Finally, the Army indicated that AGP should not be classified as IT because it does not transmit information or data for any objective purpose. Information contained in the Army's comments contradicts this belief. For example, the Army stated in their comments that the Army Game enables both the potential recruit and recruiter to gather information useful to the recruiting process.

Management Comments on fully funding AGP from available obligation authority. The Army concurred with this part of the finding and stated they are taking corrective action. However, the Army did not specifically state what action they are taking.

Audit Response. We request the Army provide us with a description of their corrective actions and the planned dates for completion of corrective actions.

Management Comments on obligating and expending AGP funds appropriately. The Army commented that funds returned to them by NPS were used appropriately to pay for outstanding AGP tasks associated with selected items. Seven of the eight selected items that we questioned that were funded with returned funds were listed as being proper expenditures.

Audit Response. We do not agree with the Army that funds were properly expended on eight selected items. We acknowledge that the Army requested unexpended funds be returned because of NPS' mismanagement of the AGP. However, the funds were provided by NPS to the Army as a subsidiary order. This requires that all goods or services purchased must be incorporated into the final item. We identified eight items valued at \$2,011,100 that could not be defined as being part of the end item.

Audit Summary Response. The Army's comments are not responsive to the findings, conclusions, and recommendations. Further, the Army Deputy General Counsel (Ethics & Fiscal) recommended in an August 22, 2005, memorandum to the Assistant Secretary of the Army (Manpower and Reserve Affairs) that the Army concur with our proposed recommendations. We request the Army reconsider their position and provide comments on the final report.

Recommendations

We recommend the Assistant Secretary of the Army for Manpower and Reserve Affairs:

1. Establish procedures that ensure project orders are:
 - a. Funded with the DoD Financial Management Regulation prescribed appropriation.
 - b. Fully funded in the fiscal year in which the project order is issued and accepted.
2. Establish procedures requiring project order funds be expended in accordance with the DoD Financial Management Regulation.
3. Correct funding of the Army Game Project by removing charges to the applicable operation and maintenance appropriations and by charging an FY 2000 Research, Development, Test and Evaluation appropriation for the full amount of the order if those funds are available.
4. Upon correction, determine whether any violations of the Antideficiency Act occurred.
5. Report any Antideficiency Act violations in accordance with DoD 7000.14-R, "Financial Management Regulation," Volume 14, "Administrative Control of Funds and Antideficiency Act Violations," Chapter 3, "Preliminary Reviews of Potential Violations."

Management Comments and Audit Response

Management Comments. The Army's response did not include comments on the recommendations.

Audit Response. We request the Army provide comments on the final report stating concurrence or nonconcurrence and actions planned.

Appendix A. Scope and Methodology

We evaluated the management of AGP by the Office of the ASA(M&RA). That office sponsored the project at a cost of more than \$13 million.

We collected, reviewed, and analyzed documents dated May 2000 through June 2004. Specifically, we examined Army AGP funding documents issued from FY 2000 through FY 2003. Additionally, we reviewed Army and NPS documents related to expenditure of AGP funds from FY 2002 through FY 2004. We interviewed personnel within the Office of the ASA(M&RA) to gain an understanding of the processes and management controls used to fund AGP and to determine the purpose of selected AGP expenditures. We used criteria in the DoD FMR, and the Government Accountability Office, Appropriations Law Manual, Volume 1, Chapter 5 as a guide in reviewing the funding and expenditure practices personnel within the Office of the ASA(M&RA) employed.

We performed this audit from April 2004 through July 2005 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We used data and reports generated from the NPS Department Online Reporting System but did not rely on the information in that system to support our finding. We obtained source documentation, which validated the data used from this system.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Financial Management and Contract Management high-risk areas.

Prior Coverage

Although no prior audits were conducted specifically related to Army funding of project orders during the last 5 years, we recently issued the following report that addressed NPS development and management of AGP. Unrestricted DoD-OIG reports can be accessed at <http://www.dodig.mil/audit/reports>.

DoD IG

Audit Report No. D-2005-103, "Development and Management of the Army Game Project," August 24, 2005

Appendix B. Report Distribution

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Department of the Army Comments



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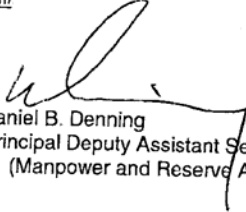
November 23, 2005

MEMORANDUM FOR MR. BYRON B. HARBERT PROGRAM DIRECTOR, DEFENSE
AUDITING SERVICE

SUBJECT: Report on Army Management of the Army Game Project Funding
(Project No. D2004-D000FD-0146 001)

Attached please find Army comments regarding subject report.

Point of contact for additional information is LTC Michael Sullivan, (703) 695-
5149, email MichaelJ.Sullivan@us.army.mil


Daniel B. Denning
Principal Deputy Assistant Secretary
(Manpower and Reserve Affairs)

Enclosure

CF:
DUSA
OGC

Army Response to DoD Inspector General Report on the Army Game Program

Response to Finding 1, Use of OMA Rather than RDT&E Funds for AGP (Non Concur)

The DODIG contends that the Army Game, "America's Army", is an Information Technology (IT) resource and as such should have been funded using RDT&E rather than O&M funds. The Army properly funded the Army Game using O&M Funds.

As a general proposition, the technology for career planning games and first-person adventure games was already established as a commercial, off-the-shelf product (COTS) prior to conception of the Army Game in 1999. The Army Game was envisioned to exploit this established commercial technology so as to avoid the cost and risk entailed in developing new technology. While the Army does fund efforts to develop new virtual environment technology using RDT&E funds at the Institute for Creative Technology (ICT), the Army Game overlays Army specific templates to a non-developmental COTS game engine. Moreover, the purpose of the Army Game is to allow the Army to expand its marketing efforts into new venues in each year of marketing program execution. As such, the Game's marketing function is properly part of the ongoing recruiting and advertising mission of the Secretary of the Army. Many forms of new marketing ideas are explored each year, and implementation of an Army computer game was simply one technique from a large menu of potential marketing ideas the Army has explored since 1999. Since FY2000 the Army has programmed and executed the Army Game Project (AGP) using O&M appropriations.

A review of Congressional reports, DoD IG Audits, and the DoD Financial Management Regulation (FMR) indicates that the AGP was properly funded using OMA appropriations because the AGP does not comport with the requirements for IT programs as set forth in the FMR. Moreover, within the hierarchy of references upon which Federal Financial Accounting Board Standards are based, and to which officials are directed to refer (FMR, Volume 1, Chapter 8, Paragraph 0803), we find specific guidance that bars accounting for marketing programs such as the Army Game as an RDT&E expenditure. Specifically, paragraph 4 of Financial Accounting Standards Board Interpretation 6 specifically states that "to the extent, therefore, that the acquisition, development, or improvement of a process by an enterprise for use in its selling or administrative activities includes cost for computer software, those costs are not research and development costs. Examples of costs of excluded software are those incurred for development by an airline of a computerized reservation system."

Under a memorandum of understanding with the Naval Postgraduate School (NPS), the Army provided NPS with OMA funds to carry the Army Game to fruition. After the Army transferred funds to NPS to execute the Army Game, NPS purchased the underlying COTS technology upon which the Army Game is layered. This technology, the Unreal Game Engine, was not unlike an excel spreadsheet into which NPS added application specific content. As opposed to numbers, functions and macros, NPS added imagery, scenarios, environments and scripting to the Unreal engine to market the Soldier lifecycle experience to players. Over the period between July 2000 when NPS began work on the Army Game and July 2002 when the Game was released, NPS work focused upon capturing the essence of the Soldier lifecycle experience and overlaying this experience on the Unreal Engine. This work included site visits to Army posts to create a photographic library of environments, Soldier equipment and materiel. NPS then converted these images and reference materials to game scenarios, models. NPS also developed extensive animations using motion capture systems. Finally, NPS knitted together the models, animations, scenarios and sound files with an intuitive user interface much as one would develop an integrated spreadsheet application by weaving together figures, cell references, formulas, macros, data entry and data display fields in excel. Hence, the creation of the Army Game did not entail development within the context of the FMR. Therefore the Army properly funded with OMA funds.

In addition to the fact that the Army Game was a non-developmental item, the Army and Congress consistently viewed the AGP to be an O&M budgeted item. For example, the Game was included within the O&M Justification of OMA Estimates for FY 2001:

III. Financial Summary (O&M: \$ in Tenths of Millions) (Continued):
C. Reconciliation: Increases and Decreases:

16 Program Increase (Continued): Geographic Positioning of the Sales Force The Army plans to virtually and geographically position our recruiting force to maximize recruiting efforts in premium markets and tap unexplored growth opportunities. The Army will redistribute actual and virtual Army Recruiting presence in the general public by funding several initiatives. These include:

- (1) Virtual recruiting stations. This includes a world wide web site where potential recruits will be able to explore Army opportunities and entry requirements and complete some of the required paperwork before their first interaction with an Army recruiter;
- (2) **The Army game**. We will develop a scenario based multi-level game and interactive simulation. The Army Game enables both the potential recruit and recruiter to gather information about career choices in the Army;
- (3) Electronic Recruiting Kiosks. The Army will position electronic recruiting kiosks in high traffic areas such as shopping malls, community colleges, and special events to increase visibility.
- (4) The Army retail store. The Army will develop "The Army" retail store to attract potential recruits where they spend the majority of their free time - the shopping malls."

Part I – Congressional Intent

As referenced in the DODIG Report, in 1999 Congress expressed concern that DoD was using O&M funds for IT products. The following excerpt is from the Report of the House Committee on Appropriations, H R 105-591:

The Committee is concerned about the adequacy of the Department's oversight of its information technology systems. In reviewing the budgets of individual systems it is clear that agencies and departments are using Operation and Maintenance funds for purposes inconsistent with that appropriation. For example, the Department is spending about \$780,000,000 in Operation and maintenance on the development and modernization of information technology systems. According to the Financial Management Regulation (FMR) "Development and Modernization" including "Program costs for new **Automated Information Systems**" and "**any change or modification to an existing Automated Information System which is intended to result in improved capability or performance.**"

The AGP does not fall into the category of an Automated Information System because it does not transmit information or data for any objective purpose. To classify it so broadly as an "IT" resource suggests that any web-based or computer aided mechanism would fall into this category. Furthermore, to address funding questions, DoD issued amplifying guidance on funding "IT" resources in a memorandum titled "Clarification of Policy – Budgeting for Information Technology and Automated Information Systems" dated 26 October 1999. In that memo DoD states,

The RTD&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.

The AGP is not a capability as it does not enhance the Army's operational performance. It is an interactive brochure developed for the medium in which most potential recruits get their information, namely internet connected computers.

Additionally, reference to DoDIG reports and audits provides context to the foregoing funding question. For example, in Audit Report No. D-20000-063 dated December 17, 1999 DoD examined IT programs funded with O&M instead of RTD&E appropriations. Each of the 14 major programs examined were central to the functioning of a service organization. These programs included:

Global Command Support System
Navy Standard Integrated Personnel System
Standard Procurement System

Joint Computer – Aided Acquisition and Logistics Support System

The AGP is very different from these programs as there is no objective system that was developed for the purposes of collecting, transmitting, or integrating data so that an agency or service could more efficiently or effectively perform its critical core tasks. Rather, the AGP is a stand alone product that is designed as a “virtual brochure” to improve upon existing marketing activities.

Part II – RDT&E Reporting

As the definition of IT is not constant, DoD has updated the FMR since 1999 to try and delineate between IT and non-IT projects. Currently, the DoD FMR, Volume 2B, Chapter 18, Information Technology & National Security Systems dated June 2004, paragraph 180101.D.2 states:

the following resources are generally exempted from IT reporting: . Programs, projects, and activities embedded in non-C2/Comm or weapon systems or embedded in Service force structure and, therefore, not readily identifiable in the budget

Clearly, the Army Game is an element of Army marketing efforts. As such, the AGP falls within the categories of programs generally exempted from IT report requirements. Moreover, from a reading of the FMR Glossary of Terms, it is apparent that the AGP is not C² Comm, nor weapons system.

Response to Finding 2, Fully Funding Project Order to Naval Post Graduate School (Concur)

The Army funded the Army Game Project as an expense item in the year of execution. Whereas the Army Game was a new marketing effort, the Army retained scope to vary Army expenditures for the Game as circumstances warranted. The Game was one of several new marketing innovations the Army has employed since 1999. As such, at program inception, the relative merit of the Game vis-à-vis other marketing projects was unclear. By funding this marketing project incrementally, the Army was able to expand the scale of its marketing activities using the Game and thereby capitalize upon the Game's outstanding success in placing Soldiering within the life-course decision space of young Americans. Indeed, whereas the Army has found that the Game reaches 20 to 40 percent of new accessions, it has achieved a level of return that the Army could not envision at program inception and which has required flexible expansion of Game-related marketing activities apace with game popularity and capabilities. In retrospect, the more proper course of action may have been to fully fund incremental project orders apace with key project milestones rather than incrementally funding a single project order. However, the Army concurs that the project order under which NPS created the Army Game should have been fully funded. The Army is taking corrective action.

Response to Finding 3, Army Expenditure of AGP Funds (Non Concur)

The DODIG Report contends that the Army mismanaged AGP Funds by expending Game Project funds on items that were not ultimately incorporated into the Army Game. No such mismanagement occurred and all funds provided for the Army Game were properly expended on the Army Game Project.

In late FY2003 and early FY2004, Army AGP managers found cause for growing concern that Army funds provided to the MOVES Institute at the Naval Post Graduate School (NPS) were not being properly expended. These concerns, which were subsequently documented in DODIG Project D2004-D000FD-146 000, set in train requests by Army AGP managers for return of unexpended AGP funds, from NPS to the Army.

Subsequent to the return of AGP funds to the Army, these funds were spent for ongoing expansion and support of the Army Game – “America's Army”. Expenditures of returned AGP funds are detailed below:

- 1) Doc No W16XYA20570009 – \$50,000 for storage array to serve as on-call backup for Army game player records jacket information.

- 2) MIPROEMAFY031M - \$30,000 for work to secure trademark protection for Army Game brand logos, key art and tag lines
- 3) MIPR4GPN097042 - \$540,151.04 for Army Game marketing support at the Electronics Entertainment Expo (E3)
- 4) MIPR4HPN145069 - \$89,653.00 for Army Game Public Relations Manager salary and benefits
- 5) MIPR4HPN145070 - \$10,296.00 for Army Game anti-cheat and anti-hack protection
- 6) MIPRFPN085041 - \$721,000.00 for expansion of Army Game content and features
- 7) MIPR4HPN145071 - \$300,000.00 for expansion of Army Game content and features

NPS could not provide an accounting for its use of AGP funds to Army AGP managers. In part, this lack of accountability led Army AGP managers to request the return of AGP funds to the Army and ultimately to the transfer of work on the AGP from NPS in March of 2004. Due to the inability of NPS to provide an accounting for AGP funds, the Army had no visibility over the lifespan of funds remaining at NPS or returned from NPS. The funds returned to the Army were not identified as prior year funds and it is reasonable to assume that they were, in fact, current year funds. The Army AGP managers did have visibility over tasks for which funding had been provided to NPS. Therefore, when funds were returned from NPS, Army AGP managers expended these funds in support of outstanding AGP tasks. Notwithstanding the managerial demands imposed by transfer of the Game from NPS to the Army, Army APG managers continue to manage financial resources under their control in such a manner as to exceed Army objectives and achieve an unprecedented depth and breadth of reach into the target Army recruiting market. Moreover, they have achieved this reach at several orders of magnitude lower in cost than traditional marketing efforts.

Team Members

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