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DEPARTMENT OF DEFENSE

Financial Management Improvement and Audit Readiness Efforts Continue to Evolve

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Financial Management and Assurance

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Highlights

Highlights of GAO-10-1059T, a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate.

DEPARTMENT OF DEFENSE

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Why GAO Did This Study

As one of the largest and most complex organizations in the world, the Department of Defense (DOD) faces many challenges in resolving its pervasive and long-standing financial management and related business operations and systems problems. DOD is required by various statutes to (1) improve its financial management processes, controls, and systems to ensure that complete, reliable, consistent, and timely information is prepared and responsive to the financial information needs of agency management and oversight bodies, and (2) produce audited financial statements.

DOD has initiated numerous efforts over the years to improve the department's financial management operations and ultimately achieve unqualified (clean) opinions on the reliability of reported financial information.

The Subcommittee has asked GAO to provide its perspective on DOD's current efforts to address its financial management weaknesses and achieve auditability, including the status of its Enterprise Resource Planning (ERP) system implementations.

GAO's testimony is based on its prior work related to DOD's financial improvement and audit readiness strategy and related activities, including its ERP implementation efforts.

View GAO-10-1059T or key components. For more information, contact Asif A. Khan at (202) 512-9095 or khana@gao.gov.

What GAO Found

DOD has initiated numerous efforts over the years to address its financial management weaknesses and achieve audit readiness. In 2005, DOD issued its Financial Improvement and Audit Readiness (FIAR) Plan to define the department's strategy and methodology for improving financial management operations and controls, and reporting its progress. In 2009, DOD Comptroller directed that the department's FIAR efforts be focused on improving processes and controls supporting information most often used to manage operations, while continuing to work toward achieving financial statement auditability. To support these objectives, DOD established two priority focus areas: budget information and information pertaining to mission-critical assets. In 2010, DOD revised its FIAR strategy, governance framework, and methodology to support the DOD Comptroller's direction and priorities and to comply with fiscal year 2010 defense authorizing legislation, which incorporated GAO recommendations intended to improve the FIAR Plan as a strategic plan.

Based on what GAO has seen to date, DOD's revised FIAR Plan strategy and methodology reflects a reasonable approach. Moreover, GAO supports prioritizing focus areas for improvement and is hopeful that a consistent focus provided through shared FIAR priorities will increase incremental progress toward improved financial management operations. However, developing sound plans and methodology, and getting leaders and organizations in place is only a start. DOD needs to define specific roles and responsibilities for the Chief Management Officers (CMO)—including when and how the CMOs are expected to become involved in problem resolution and in ensuring cross-functional area commitment to financial improvement activities.

A key element of the FIAR strategy is successful implementation of the ERPs. According to DOD, as of December 2009, it had invested approximately $5.8 billion to develop and implement these ERPs and will invest additional billions before these efforts are complete. However, as GAO has previously reported inadequate requirements management, systems testing, ineffective oversight over business system investments, and other challenges have hindered the department's efforts to implement these systems on schedule and within cost.

Whether DOD's FIAR strategy will ultimately lead to improved financial management capabilities and audit readiness depends on DOD leadership and oversight to help achieve successful implementation. Sustained effort and commitment at the department and component levels will be needed to address weaknesses and produce financial management information that is timely, reliable, and useful for managers throughout DOD. GAO will continue to monitor DOD's progress and provide feedback on the status of DOD's financial management improvement efforts.

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here today to discuss the status of the Department of Defense's (DOD) efforts to improve its financial management operations and achieve audit readiness. At the outset, I would like to thank the Subcommittee for having this hearing and acknowledge the important role hearings such as this one serve.

DOD is one of the largest and most complex organizations in the world. In fiscal year 2009, DOD reported that it had over $947 billion in disbursements, $1.8 trillion in assets, and approximately 3.2 million military and civilian personnel—including active and reserve components.[1] DOD operations span a wide range of defense organizations, including the military departments and their respective major commands and functional activities, large defense agencies and field activities, and various combatant commands that are responsible for military operations for specific geographic regions or theaters of operation. To execute its operations, the department performs interrelated and interdependent business functions, including financial management, acquisition and contract management, logistics management, and human resource management. According to DOD officials, the department relies on about 2,080 business systems,[2] including accounting, acquisition, logistics, and personnel systems, to support its business functions.

The department's sheer size and complexity contribute to the many challenges DOD faces in resolving its pervasive, complex, and long-standing financial management and related business operations and systems problems. Numerous initiatives and efforts have been undertaken by DOD and its components to improve the department's financial management operations and achieve favorable (clean) audit opinions on the reliability of reported financial information. To date, DOD has not

[1]The reported amounts are not audited. In November 2009, the DOD Inspector General reported that because of long-standing internal control weaknesses, DOD's annual financial statements, which included these reported amounts, were not accurate and reliable.

[2]DOD excludes from its business systems those designated as national security systems under section 2222 (j) of Title 10, United States Code. National security systems are intelligence systems, cryptologic activities related to national security, military command and control systems, and equipment that is an integral part of a weapon or weapons system or is critical to the direct fulfillment of military or intelligence missions.

implemented effective financial management capabilities or achieved financial statement auditability.[3]

Today, I will describe the department's current strategy to address its financial management weaknesses and achieve audit readiness and provide GAO's perspective on DOD's efforts and progress. In addition, I will outline the status of the department's efforts to implement its Enterprise Resource Planning (ERP) systems,[4] which represent a critical element of the department's financial improvement and audit readiness (FIAR) strategy.

My statement today is based on our prior work related to the department's FIAR Plan and related financial management improvement activities, including our assessment of the department's ability to manage and control operations and support costs associated with its weapon systems,[5] and our ongoing oversight of selected DOD financial statement audits and ERP implementation efforts. Our work was conducted in accordance with generally accepted auditing standards and our previously published

[3]DOD's auditor have reported material financial management weaknesses in the following areas: (1) Financial Management Systems, (2) Fund Balance with Treasury, (3) Accounts Receivable, (4) Inventory, (5) Operating Materials and Supplies, (6) General Property, Plant, and Equipment, (7) Government-Furnished Material and Contractor-Acquired Material, (8) Accounts Payable, (9) Environment Liabilities, (10) Statement of Net Cost, (11) Intragovernmental Eliminations, (12) Other Accounting Entries, and (13) Reconciliation of Net Cost of Operations to Budget.

[4]An ERP solution is an automated system using commercial off-the-shelf (COTS) software consisting of multiple, integrated functional modules that perform a variety of business-related tasks such as general ledger accounting, payroll, and supply chain management.

[5]GAO, *Financial Management: Achieving Financial Statement Auditability in the Department of Defense*, GAO-09-373 (Washington, D.C.: May 6, 2009), *Department of Defense: Additional Actions Needed to Improve Financial Management of Military Equipment*, GAO-10-695 (Washington, D.C. July 26, 2010), *Defense Management: DOD Needs Better Information to More Effectively Manage and Reduce Operating and Support Costs of Major Weapon Systems*, GAO-10-717 (Washington, D.C.: July 20, 2010), *Business Systems Modernization: Scope and Content of DOD's Congressional Report and Executive Oversight of Investments Need to Improve*, GAO-10-663 (Washington, D.C.: May 24, 2010), *Defense Logistics: Actions Needed to Improve Implementation of the Army Logistics Modernization Program*, GAO-10-461 (Washington, D.C.: Apr. 30, 2010), *DOD Business Transformation: Air Force's Current Approach Increases Risk That Asset Visibility Goals and Transformation Priorities Will Not Be Achieved*, GAO-08-866 (Washington, D.C.: Aug. 8, 2008), *DOD Business Systems Modernization: Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas*, GAO-08-896 (Washington, D.C.: Sept. 8, 2008), and *DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk*, GAO-07-860 (Washington, D.C.: July27, 2007).

reports contain additional details on the scope and methodology for those reviews. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

DOD is one of the largest federal agencies with its budget representing over half of the entire federal government's discretionary spending.[6] For fiscal year 2010, Congress appropriated over $694 billion for DOD. This included $530 billion in regular appropriations for base needs and about $164 billion in regular and supplemental appropriations for contingency operations in Iraq, Afghanistan, and other locations. As of June 2010, DOD had received about $1 trillion since 2001 to support contingency operations. The department is currently facing near-term and long-term internal fiscal pressures as it attempts to balance competing demands to support ongoing operations, rebuild readiness following extended military operations, and manage increasing personnel and health care costs and significant cost growth in its weapons systems programs.

For more than a decade, DOD has dominated GAO's list of federal programs and operations at high-risk of being vulnerable to fraud, waste, abuse, and mismanagement.[7] In fact, all the DOD programs on GAO's High-Risk List relate to business operations, including systems and processes related to management of contracts, finances, the supply chain, and support infrastructure,[8] as well as weapon systems acquisition. Long-

[6]Discretionary spending refers to outlays from budget authority that is provided in and controlled by appropriation acts, unlike mandatory spending, such as Medicare and other entitlement programs.

[7]DOD bears responsibility, in whole or in part, for 15 of the 30 federal programs or activities that GAO has identified as being at high risk of waste, fraud, abuse, and mismanagement. The eight specific DOD high-risk areas are (1) approach to business transformation; (2) business systems modernization; (3) contract management; (4) financial management; (5) personnel security clearance program; (6) supply chain management; (7) support infrastructure management; and (8) weapon systems acquisition. The seven governmentwide high risk areas that include DOD are: (1) disability programs; (2) interagency contracting; (3) information systems and critical infrastructure; (4) information sharing for homeland security; (5) human capital; (6) real property; and (7) ensuring the effective protection of technologies critical to U.S. national security interests.

[8]Support infrastructure includes categories, such as force installation, central logistics, the defense health program, and central training.

standing and pervasive weaknesses in DOD's financial management and related business processes and systems have (1) resulted in a lack of reliable information needed to make sound decisions and report on the financial status and cost of DOD activities to Congress and DOD decision makers; (2) adversely affected its operational efficiency in business areas, such as major weapons system acquisition and support and logistics; and (3) left the department vulnerable to fraud, waste, and abuse. Detailed examples of these effects are presented in appendix I.

DOD is required by various statutes[9] to improve its financial management processes, controls, and systems to ensure that complete, reliable, consistent, and timely information is prepared and responsive to the financial information needs of agency management and oversight bodies, and to produce audited financial statements. Collectively these statues required DOD to do the following

- Establish a leadership and governance framework and process, including a financial management improvement plan or strategy (over time the department's strategy evolved into the FIAR Plan, which ultimately became a subordinate plan to the department's Strategic Management Plan)[10] for addressing its financial management weaknesses and report to Congress and others semi-annually on its progress.
- Concentrate the department's efforts and resources on improving the department's financial management information.
- Systematically tie actions to improve processes and controls with business system modernization efforts described in the business enterprise architecture[11] and enterprise transition plan required by 10 U.S.C. § 2222.

[9]These statutes include the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Federal Financial Management Improvement Act of 1996, and various annual authorization and appropriations act provisions.

[10]DOD's Strategic Management Plan is intended to provide an executive overview of the department's overall strategic planning and management framework, and establishes DOD's priorities for business operations and improvement efforts.

[11]An enterprise architecture is a modernization blueprint of an organization or a functional or mission area, which together with an enterprise transition plan, provides a road map for moving between the current state of operations to the intended state.

- Limit the resources the department spend each year to develop, compile, report, and audit unreliable financial statements.[12]

- Submit an annual report[13] to defense committees, the Office of Management and Budget (OMB), the Department of the Treasury (Treasury), GAO, and the DOD Inspector General (DOD IG) concluding on whether DOD policies, procedures, and systems support financial statement reliability, and the expected reliability of each DOD financial statement.

- Certify to the DOD IG whether a component or DOD financial statement for a specific fiscal year is reliable. Following DOD's assertion that a financial statement is reliable, DOD may expend resources to develop, compile, report, and audit the statement and the statements of subsequent fiscal years.

Because of the complexity and magnitude of the challenges facing the department in improving its business operations, GAO has long advocated the need for a senior management official to provide strong and sustained leadership.[14] Recognizing that executive-level attention and a clear strategy were needed to put DOD on a sustainable path toward successfully transforming its business operations, including financial management, the National Defense Authorization Act (NDAA) for fiscal year 2008 designated the Deputy Secretary of Defense as the department's Chief Management Officer (CMO), created a Deputy CMO position, and designated the undersecretaries of each military department as CMOs for their respective departments.[15] The act also required the Secretary of Defense, acting through the CMO, to develop a strategic management plan

[12]The limitation regarding the authority to obligate or expend funds does not apply to activities directed at assessing the adequacy of internal controls and remediating any inadequacy identified pursuant to such an assessment.

[13]DOD refers to this annual report as *The Report to Congress on the Reliability of Department of Defense Financial Statements.*

[14]GAO, *Defense Business Transformation: Status of Department of Defense Efforts to Develop a Management Approach to Guide Business Transformation*, GAO-09-272R (Washington, D.C.: Jan. 9, 2009), *Defense Business Transformation: Sustaining Progress Requires Continuity of Leadership and an Integrated Approach*, GAO-08-462T (Washington, D.C.: Feb. 7, 2008), and *Defense Business Transformation: Achieving Success Requires a Chief Management Officer to Provide Focus and Sustained Leadership*, GAO-07-1072 (Washington, D.C.: Sept. 5, 2007).

[15]Pub. L. No. 110-181, §904, 122 Stat. 3, 273 (Jan 28, 2008).

that among other things would provide a detailed description of performance goals and measures for improving and evaluating the overall efficiency and effectiveness of the department's business operations and actions underway to improve operations.

To further draw the department's attention to the need to improve its strategy for addressing financial management weaknesses and achieve audit readiness the NDAA for Fiscal Year 2010[16] made the FIAR Plan a statutory mandate, requiring the FIAR Plan to include, among other things

- specific actions to be taken and costs associated with (a) correcting the financial management deficiencies that impair DOD's ability to prepare timely, reliable, and complete financial management information; and (b) ensuring that DOD's financial statements are validated as ready for audit by no later than September 30, 2017, and
- actions taken to correct and link financial management deficiencies with process and control improvements and business system modernization efforts described in the business enterprise architecture and enterprise transition plan required by 10 U.S.C. § 2222.

Consistent with the priorities announced by the DOD Comptroller in August 2009, the act also focused the department's improvement efforts on first ensuring the reliability of the department's budgetary information and property accountability records for mission-critical assets.[17] In addition, the act directed DOD to report to congressional defense committees no later than May 15 and November 15 each year on the status of its FIAR Plan implementation. Furthermore, the act required that the first FIAR Plan issued following enactment of this legislation (1) include a mechanism to conduct audits of the military intelligence programs and agencies and submit the audited financial statements to Congress in a classified manner and (2) identify actions taken or to be taken by the department to address the issues identified in our May 2009 report[18] on DOD's efforts to achieve financial statement auditability.

[16]National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, § 1003, 123 Stat. 2190, 2439 (Oct. 28, 2009).

[17]According to the DOD Comptroller's August 2009 memorandum, mission-critical assets include military and general equipment, real property, inventory, and operating materials and supplies.

[18]GAO-09-373.

DOD's Strategy for Improving Its Financial Management Operations and Achieving Audit Readiness Continues to Evolve

Over the years, the department has initiated several broad-based reform efforts, including the 1998 Biennial Strategic Plan for the Improvement of Financial Management within the Department of Defense and the 2003 Financial Improvement Initiative, intended to fundamentally transform its financial management operations and achieve clean financial statement audit opinions. In 2005, DOD's Comptroller established the DOD FIAR Directorate to develop, manage, and implement a strategic approach for addressing the department's financial management weaknesses and achieving auditability and to integrate those efforts with other improvement activities, such as the department's business system modernization efforts. The first FIAR Plan was issued in December 2005. DOD's FIAR Plan defines DOD's strategy and methodology for improving financial management and controls, and summarizes and reports the results of the department's improvement activities and progress toward achieving financial statement auditability. Further, the FIAR Plan has focused on achieving three goals: (1) implement sustained improvements in business processes and controls to address internal control weaknesses, (2) develop and implement financial management systems that support effective financial management, and (3) achieve and sustain financial statement audit readiness.

To date, the department's improvement efforts have not resulted in the fundamental transformation of DOD's financial management operations necessary to resolve the department's long-standing financial management weaknesses; [19] however, some progress has been made and the department's strategy has continued to evolve. While none of the military services have obtained unqualified (clean) audit opinions on their financial statements, some DOD organizations, such as the Army Corps of Engineers, Defense Finance Accounting Service, the Defense Contract Audit Agency, and the DOD IG, have achieved this goal. Moreover, some DOD components that have not yet received clean audit opinions, such as the Defense Information Service Agency (DISA), are beginning to reap the benefits of strengthened controls and processes gained through ongoing efforts to improve their financial management operations and reporting capabilities. For example, according to DISA's Comptroller, the agency was able to resolve over $270 million in Treasury mismatches through

[19]Department of Defense Inspector General, *Summary of DOD Office of the Inspector General Audits of Financial Management*, D-2010-002 (Arlington, Va: Oct. 19, 2009) and *Independent Auditor's Report on the DOD Agency-Wide FY 2009 and FY 2008 Basic Financial Statements*, D-2010-016 (Arlington, Va: Nov. 12, 2009).

reconciliations of over $12 billion in disbursement and collection activities. In addition, DISA's efforts to improve processes and controls over its accounts receivable and payable accounts have resulted in improvements in its ability to (1) substantiate the validity of DISA's customer billings and collect funds due to DISA, and (2) identify areas where funds could be deobligated and put to better use. Moreover, DISA management has gained increased assurance over its reported cash availability balance, thereby improving mission-critical decision making.

Since its inception, the FIAR Plan has followed an incremental approach to structure its process for examining operations, diagnosing problems, planning corrective actions, and preparing for audit. Moreover, the FIAR Plan has continued to evolve and mature as a strategic plan. Initially, DOD components independently established their own financial management improvement priorities and methodologies and were responsible for implementing the corrective actions they determined were needed to address weaknesses and achieve financial statement auditability. However, as we reported in May 2009, it was difficult to link corrective actions or accomplishments reported by the FIAR Plan to FIAR goals and measure progress.[20] In addition, we reported that as the department's strategic plan and management tool for guiding and reporting on incremental progress toward achieving these goals, the FIAR Plan could be improved in several areas. Specifically, we found the following:

- Clear guidance was needed in developing and implementing improvement efforts.
- A baseline of the department's and/or key component's current financial management weaknesses and capabilities was needed to effectively measure and report on incremental progress.
- Linkage between FIAR Plan goals and corrective actions and reported accomplishments was needed.
- Clear results-oriented metrics for measuring and reporting incremental progress were needed.
- Accountability should be clearly defined and resources budgeted and consumed should be identified.

[20]GAO-09-373.

We made several recommendations in our May 2009 report to increase the FIAR Plan's effectiveness as a strategic and management tool for guiding, monitoring, and reporting on financial management improvement efforts and increasing the likelihood of meeting the department's goal of financial statement auditability, which were incorporated into the NDAA for fiscal year 2010. In its May 2010 FIAR Status Report and Guidance, the department identified steps taken to address our recommendations to strengthen its FIAR Plan strategy and chances of sustained financial management improvements and audit readiness. For example, DOD has established shared priorities and methodology, including guidance to develop component financial improvement plans, and an improved governance framework.

In August 2009, DOD's Comptroller directed that the department focus on improving processes and controls supporting information that is most often used to manage the department, while continuing to work toward achieving financial improvements aimed at achieving unqualified audit opinions on the department's financial statements. As a result, in 2010 DOD revised its FIAR strategy, governance framework, and methodology to support these objectives and focus financial management improvement efforts primarily on achieving two interim departmentwide priorities—first, strengthening processes, controls, and systems that produce budgetary information and support the department's Statements of Budgetary Resources;[21] and second, improving the accuracy and reliability of management information pertaining to the department's mission-critical assets, including military equipment, real property, and general equipment, and validating improvement through existence and completeness testing. In addition, the DOD Comptroller directed DOD components to use a standard financial improvement plan template to support and emphasize achievement of the two FIAR priorities.

The department intends to progress toward achieving financial statement auditability in five waves (or phases) of concerted improvement activities within groups of end-to-end business processes.[22] According to DOD's May

[21]The Statement of Budgetary Resources (SBR) provides information about how budgetary resources were made available as well as their status at the end of the period. Information on the SBR such as budgetary resources, obligations incurred, and outlays should be reconcilable to the related actual balances reported in the Budget of the United States Government.

[22]DOD has identified seven key end-to-end business processes: acquire to retire, hire to retire, procure to pay, order to cash, plan to stock, environmental liabilities, and budget to report.

2010, FIAR Plan Status Report, the lack of resources dedicated to financial improvement activities at DOD components has been a serious impediment to progress, except in the Navy and the Defense Logistics Agency (DLA). As a result, the components are at different levels of completing the waves. For example, the Air Force has already received a positive validation by the DOD IG on the Air Force Appropriations Received account (wave 1) and the Navy is currently undergoing a similar review of its account. Army and DLA, are expected to complete wave 1 and be ready for validation by the end of fiscal year 2010. However, DOD is only beginning wave 1 work at other defense agencies to ensure that transactions affecting their appropriations received accounts are properly recorded and reported. The first three waves focus on achieving the DOD Comptroller's interim budgetary and asset accountability priorities, while the remaining two waves are intended to complete actions needed to achieve full financial statement auditability. However, the department has not yet fully defined its strategy for completing waves 4 and 5. The focus and scope of each wave include the following:

Wave 1—Appropriations Received Audit focuses efforts on assessing and strengthening, as necessary, internal controls and business systems involved in appropriations receipt and distribution process, including funding appropriated by Congress for the current fiscal year and related apportionment/reapportionment activity by OMB, as well as allotment and sub-allotment activity within the department.[23]

Wave 2—Statement of Budgetary Resources (SBR) Audit focuses efforts on assessing and strengthening, as necessary, the internal controls, processes, and business systems supporting the budgetary-related data (e.g., status of funds received, obligated, and expended) used for management decision making and reporting, including the SBR. In addition to fund balance with Treasury reporting and reconciliation, significant end-to-end business processes in this wave include procure-to-pay, hire-to-retire, order-to-cash, and budget-to-report.

[23]The Antideficiency Act generally requires that all appropriations to DOD be apportioned by the President, who has delegated this authority to the Office of Management and Budget (OMB), and that all appropriations, apportionments, and re-apportionments be controlled by DOD through an OMB approved system of funds control under which DOD makes allotments or further subdivisions of apportionments, such as sub-allotments. See 31 U.S.C. § § 1513, 1514.

Wave 3—Mission-Critical Assets Existence and Completeness Audit focuses efforts on assessing and strengthening, as necessary, internal controls and business systems involved in ensuring that all assets (including military equipment, general equipment, real property, inventory, and operating materials and supplies) are recorded in the department's accountable property systems of record exist, all of the reporting entities' assets are recorded in those systems of record, reporting entities have the right (ownership) to report these assets, and the assets are consistently categorized, summarized, and reported.

Wave 4—Full Audit Except for Legacy Asset Valuation focuses efforts on assessing and strengthening, as necessary, internal controls, processes, and business systems involved in the proprietary side of budgetary transactions covered by the Statement of Budgetary Resources effort of wave 2, including accounts receivable, revenue, accounts payable, expenses, environmental liabilities, and other liabilities. This wave also includes efforts to support valuation and reporting of new asset acquisitions.

Wave 5—Full Financial Statement Audit focuses efforts on assessing and strengthening, as necessary, processes, internal controls, and business systems involved in supporting the valuations reported for legacy assets once efforts to ensure control over the valuation of new assets acquired and the existence and completeness of all mission assets are deemed effective on a go-forward basis. Given the lack of documentation to support the values of the department's legacy assets, federal accounting standards allow for the use of alternative methods to provide reasonable estimates for the cost of these assets.

According to DOD, critical to the success of each wave and the department's efforts to ultimately achieve full financial statement auditability will be departmentwide implementation of the FIAR methodology as outlined in DOD's FIAR Guidance document.[24] Issued in May 2010, the FIAR Guidance document, which DOD intends to update annually, defines in a single document the department's FIAR goals, strategy, and methodology (formerly referred to as business rules) for becoming audit ready. The FIAR methodology prescribes the process components should follow in executing efforts to assess processes,

[24]DOD, Fiscal Year 2010 *Financial Improvement and Audit Readiness (FIAR) Guidance* (May 15, 2010).

controls, and systems; identify and correct weaknesses; assess, validate, and sustain corrective actions; and achieve full auditability. Key changes introduced in 2010 to the FIAR methodology include an emphasis on internal controls[25] and supporting documentation. Utilization of standard financial improvement plans and methodology should also aid both DOD and its components in assessing current financial management capabilities in order to establish baselines against which to measure, sustain, and report progress. More specifically, the standard financial improvement plan and FIAR Guidance outline key control objectives and capabilities that components must successfully achieve to complete each wave (or phase) of the FIAR strategy for achieving audit readiness. For example, to successfully complete wave 2 (SBR audit) one of the capabilities that each component must be able to demonstrate is that it is capable of performing Fund Balance with Treasury reconciliations at the transaction level.

The Success of DOD's Current Strategy Is Dependent Upon Effective Implementation

Based on what we've seen of the revised FIAR Plan strategy and methodology to date, we believe the current strategy reflects a reasonable approach. We are hopeful that a consistent focus provided through the shared priorities of the FIAR strategy will increase the department's ability to show incremental progress toward achieving auditability in the near term, if the strategy is implemented properly. In the long term, while improved budgetary and asset accountability information is an important step in demonstrating incremental progress, it will not be sufficient to achieve full financial statement auditability. Additional work will be required to ensure that transactions are recorded and reported in accordance with generally accepted accounting principles. At this time, it is not possible to predict when DOD's efforts to achieve audit readiness will be successful. The department continues to face significant challenges in providing and sustaining the leadership and oversight needed to ensure that improvement efforts, including ERP implementation efforts, result in the sustained improvements in process, control, and system capabilities necessary to transform financial management operations. We will continue to monitor DOD's progress in addressing its financial management weaknesses and transforming its business operations. As part of this effort, we plan to assess implementation of DOD's FIAR strategy and

[25]Internal control is synonymous with management control and covers all aspects of an agency's operations (programmatic, financial, and compliance). Internal control comprises the plans, methods, and procedures used to meet mission goals and objectives and, in doing so, support performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

guidance, as part of our review of the military departments' financial improvement plans.

GAO supports DOD's current approach of prioritizing efforts, focusing first on information management views as most important in supporting its operations, to demonstrate incremental progress to addressing weaknesses and achieving audit readiness. There are advantages to this approach, including building commitment and support throughout the department and the potential to obtain preliminary assessments on the effectiveness of current processes and controls and identify potential issues that may adversely affect subsequent waves. For example, testing expenditures in wave 2 will also touch on property accountability issues, as DOD makes significant expenditures for property. Identifying and resolving potential issues related to expenditures for property in wave 2 will assist the department as it enters subsequent waves dealing with its ability to reliably and completely identify, aggregate, and account for the cost of the assets it acquires through various acquisition and construction programs.

We also support efforts to first address weaknesses in the department's ability to timely, reliably, and completely record the cost of assets as they are acquired over efforts to value legacy assets. Prior efforts to achieve auditability of DOD's mission assets failed, in large part, because these efforts were focused primarily on deriving values for financial statement reporting and not on assessing and addressing the underlying weaknesses that impaired the department's ability to reliably identify, aggregate, and account for current transactions affecting these assets. GAO is willing to work with the department to revisit the question of how DOD reports assets in its financial statements to address unique aspects of military assets not currently reflected in traditional financial reporting models.

Developing sound plans and a methodology and getting leaders and organizations in place is only a start. Consistent with our previous reports regarding the department's CMO positions, including the CMO, Deputy CMO and military department CMOs,[26] and our May 2009 recommendations to improve DOD's FIAR Plan as a strategic and management tool for addressing financial management weaknesses and achieving and sustaining audit readiness,[27] DOD needs to define specific

[26]GAO-09-272R, GAO-08-462T, and GAO-07-1072.

[27]GAO-09-373.

roles and responsibilities—including when and how the CMO and military department CMOs and other leaders are expected to become involved in problem resolution or efforts to ensure cross-functional area commitment and support to financial management improvement efforts; effectively execute its plans; gauge actual progress against goals; strengthen accountability; and make adjustments as needed. In response to our report, DOD expanded its FIAR governance framework to include the CMOs. While expansion of the FIAR governance framework to include the CMOs is also encouraging, the specific roles and responsibilities of these important leaders have not yet been fully defined. As acknowledged by DOD officials, sustained and active involvement of the CMOs and other senior leaders is critical in enabling a process by which DOD can more timely identify and address cross-functional issues and ensure that other business functions, such as acquisition and logistics, fully acknowledge and are held accountable for their roles and responsibilities in achieving the department's financial management improvement goals and audit readiness.

Sustained and active leadership and effective oversight and monitoring at both the department and component levels are critical to ensuring accountability for progress and targeting resources in a manner that results in sustained improvements in the reliability of data for use in supporting and reporting on operations. As part of GAO's prior work pertaining to DOD's key ERP implementation efforts and the FIAR Plan, we have seen a lack of focus on developing and using interim performance metrics to measure progress and the impact of actions taken. For example, our review of DOD's ERP implementation efforts, which we plan to report on in October 2010, found that DOD has not yet defined success for ERP implementation in the context of business operations and in a way that is measurable. In May 2009 we reported[28] that the FIAR Plan does not use clear results-oriented metrics to measure and report corrective actions and accomplishments in a manner that clearly demonstrates how they contribute individually or collectively to addressing a defined weakness, providing a specific capability, or achieving a FIAR goal. To its credit, DOD has taken action to begin defining results-oriented FIAR metrics it intends to use to provide visibility of component-level progress in assessment and testing and remediation activities, including progress in identifying and addressing supporting documentation issues. We have not

[28]GAO-09-373.

yet had an opportunity to assess implementation of these metrics or their usefulness in monitoring and redirecting actions.

In the past, DOD has had many initiatives and plans that failed due to a lack of sustained leadership focus and effective oversight and monitoring. Without sustained leadership focus and effective oversight and monitoring, DOD's current efforts to achieve audit readiness by a defined date are at risk of following the path of the department's prior efforts and fall short of obtaining sustained substantial improvements in DOD's financial management operations and capabilities or achieving validation through independent audits.

Effective Implementation of Business Systems Is Essential to Improving and Sustaining DOD Financial Management and Related Business Operations

DOD officials have said that successful implementation of ERPs is key to resolving the long-standing weaknesses in the department's business operations in areas such as business transformation, financial management, and supply chain management,[29] and improving the department's capability to provide DOD management and Congress with accurate and reliable information on the results of DOD's operations. For example in 2010, we reported[30] that the Army Budget Office lacked an adequate funds control process to provide it with ongoing assurance that obligations and expenditures do not exceed funds available in the Military Personnel, Army (MPA) appropriation. These weaknesses resulted in a shortfall of $200 million in 2008. Army Budget Office personnel explained that they rely on estimated obligations, rather than actual data from program managers, to record the initial obligation or adjust the estimated obligation due to inadequate financial management systems.

[29]These areas were designated as high risk in 2005, 1995, and 1990, respectively.

[30]GAO, *Department of the Army—The Fiscal Year 2008 Military Personnel, Army Appropriation and the Antideficiency Act, B-318724 (Washington, D.C.: June 22, 2010).*

DOD has identified 10 ERPs,[31] 1 of which has been fully implemented,[32] as essential to its efforts to transform its business operations. Appendix II contains a description of each of the remaining 9 ERPs currently being implemented within the department. According to DOD, as of December 2009, it had invested approximately $5.8 billion to develop and implement these ERPs and will invest additional billions before the remaining 9 ERPs are fully implemented. The department has noted that the successful implementation of these 10 ERPs will replace over 500 legacy systems that reportedly cost hundreds of millions of dollars to operate annually.

However, our prior reviews of several ERPs have found that the department has not effectively employed acquisition management controls or delivered the promised capabilities on time and within budget.[33] More specifically, significant leadership and oversight challenges, as illustrated by the Logistics Modernization Program (LMP) example discussed appendix I, have hindered the department's efforts to implement these systems on schedule, within cost, and with the intended capabilities. Based upon the information provided by the program management offices (PMOs), six of the ERPs have experienced schedule slippages, as shown in table 1, based on comparing the estimated date that each program was

[31]The 10 ERPs are as follows: Army—General Fund Enterprise Business System (GFEBS), Global Combat Support System-Army (GCSS-Army), and Logistics Modernization Program (LMP); Navy—Navy Enterprise Resource Planning (Navy ERP) and Global Combat Support System-Marine Corps (GCSS-MC); Air Force—Defense Enterprise Accounting and Management System (DEAMS) and Expeditionary Combat Support System (ECSS); Defense—Service Specific Integrated Personnel and Pay Systems and Defense Agencies Initiative (DAI); and DLA—Business System Modernization (BSM). According to DOD, BSM was fully implemented in July 2007.

[32]According to DOD, BSM was fully implemented at DLA in July 2007.

[33]GAO, *Defense Logistics: Actions Needed to Improve Implementation of the Army Logistics Modernization Program*, GAO-10-461 (Washington, D.C.: Apr. 30, 2010); *DOD Business Systems Modernization: Navy Implementing a Number of Key Management Controls on Enterprise Resource Planning System, but Improvements Still Needed*, GAO-09-841 (Washington, D.C.: Sept. 15, 2009); *DOD Business Systems Modernization: Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas*, GAO-08-896 (Washington, D.C.: Sept. 8, 2008); *DOD Business Transformation: Air Force's Current Approach Increases Risk That Asset Visibility Goals and Transformation Priorities Will Not Be Achieved*, GAO-08-866 (Washington, D.C.: Aug. 8, 2008); *DOD Business Systems Modernization: Key Marine Corps System Acquisition Needs to Be Better Justified, Defined, and Managed*, GAO-08-822 (Washington, D.C.: July 28, 2008); and *DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk*, GAO-07-860 (Washington, D.C.: July 27, 2007).

originally scheduled to achieve full deployment[34] to the full deployment date as of December 2009. For the remaining three ERPs, the full deployment date has either remained unchanged or has not been established. The GFEBS PMO noted that the acquisition program baseline approved in November 2008, established a full deployment date in fiscal year 2011 and that date remains unchanged. Additionally, according to the GCSS-Army PMO a full deployment date has not been established for this effort. The PMO noted that a full deployment date will not be established for the program until a full deployment decision has been approved by the department. A specific timeframe has not been established for when the decision will be made. Further, in the case of DAI, the original full deployment date was scheduled for fiscal year 2012, but the PMO is in the process of reevaluating the date and a new date has not yet been established.

[34]Full deployment means with respect to a major automated information system program, the fielding of an increment of the program in accordance with the terms of a full deployment decision—the final decision made by the MDA authorizing an increment of the program to deploy software for operational use. Pub. L. No. 111-84, October 28, 2009, the National Defense Authorization Act for Fiscal Year 2010 directed that the terminology be changed from full operational capability to full deployment.

Table 1: Reported Full Deployment Schedule Slippage for Each ERP as of December 31, 2009

Component/system name	Originally scheduled fiscal year for full deployment	Actual or latest estimated fiscal year for full deployment	Schedule slippage
Army			
General Fund Enterprise Business System (GFEBS)	2011	2011	None
Global Combat Support System-Army (GCSS-Army)	[a]	[a]	Not known
Logistics Modernization Program (LMP)	2005	2011	6 years
Navy			
Navy ERP	2011	2013	2 years
Global Combat Support System-Marine Corps (GCSS-MC)	2010	2013	3 years[b]
Air Force			
Defense Enterprise Accounting and Management System (DEAMS)	2014	2017	3 years
Expeditionary Combat Support System (ECSS)	2012	2016	4 years
DOD			
Service Specific Integrated Personnel and Pay Systems	2006	Army—2014 Navy—2017 Air Force—2018	12 years[c]
Defense Agencies Initiative (DAI)	2012	[d]	Not known

Source: DOD program management offices.

[a]The program management office (PMO) has not yet determined the full deployment date, although the program was initiated in December 2003.

[b]The PMO stated that the estimated full deployment date is only for phase 1. The full deployment date for the entire program has not yet been determined.

[c]Originally this ERP was referred to as the Defense Integrated Military Human Resources System (DIMHRS) and was intended to provide a joint, integrated, standardized personnel/pay system for all military personnel departmentwide. The original full deployment date represents the estimated date for DIMHRS. As previously discussed, each military service is now responsible for developing its own integrated personnel and pay system.

[d]As of December 2009, the DAI PMO had not determined the revised full deployment date..

Prior work by GAO and the U.S. Army Test and Evaluation Command found that delays in implementing the ERPs have occurred, in part, due to inadequate requirements management and system testing, and data quality

issues.[35] These delays have contributed not only to increased implementation costs in at least five of the nine ERPS, as shown in table 2, they have also resulted in DOD having to fund the operation and maintenance of the legacy systems longer than anticipated, thereby reducing funds that could be used for other DOD priorities.

[35]GAO, *Defense Logistics: Actions Needed to Improve Implementation of the Army Logistics Modernization Program*, GAO-10-461 (Washington, D.C.: Apr. 30, 2010); *DOD Business Systems Modernization: Navy Implementing a Number of Key Management Controls on Enterprise Resource Planning System, but Improvements Still Needed*, GAO-09-841 (Washington, D.C.: Sept. 15, 2009); *DOD Business Systems Modernization: Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas*, GAO-08-896 (Washington, D.C.: Sept. 8, 2008); *DOD Business Transformation: Air Force's Current Approach Increases Risk That Asset Visibility Goals and Transformation Priorities Will Not Be Achieved*, GAO-08-866 (Washington, D.C.: Aug. 8, 2008); *DOD Business Systems Modernization: Key Marine Corps System Acquisition Needs to Be Better Justified, Defined, and Managed*, GAO-08-822 (Washington, D.C.: July 28, 2008); *DOD Business Transformation: Lack of an Integrated Strategy Puts the Army's Asset Visibility System Investments at Risk*, GAO-07-860 (Washington, D.C.: July 27, 2007) and U.S. Army Test and Evaluation Command, *Operational Test Agency Evaluation Report for the General Fund Enterprise Business System* (Alexandria, Va: Dec. 16, 2009).

Table 2: Reported Original and Current Life-Cycle Cost Estimate for Each ERP as of December 31, 2009 (dollars in millions)

Component/system name	Original life cycle cost estimate [36]	Current life cycle cost estimate	Reported cost increase
Army			
GFEBS	$1,354	$1,337	$(17)
GCSS-Army	$3,900	$3,900	0
LMP	$2,630	$2,630 [a]	0
Navy			
Navy ERP	$1,870	$2,400	$530
GCSS-MC	$ 126	$ 934	$808b
Air Force			
DEAMS	$1,100	$2,048	$948
ECSS	$3,000	$5,200	$2,200c
DOD			
Service Specific Integrated Personnel and Pay Systems	$577d	Armyd Navy—$1.3 Air Force—$1.7	At least $2,423
DAI	$209	[e]	Not applicable

Source: DOD program management offices.

[a]At the time LMP was designated as a major automated information systems (MAIS) program in December 2007, it was required to comply with the DOD guidance for MAIS programs. This guidance requires, among other things, that a MAIS program have a completed and approved acquisition program baseline—the baseline description of the program, including the life-cycle cost estimate—prior to Milestone B approval. The $2.6 billion is the only life cycle cost estimate that has been developed for the program.

[b]The current life-cycle cost estimate for GCSS-MC is for phase one. The remaining two phases will have separate baselines.

[c]Originally, ECSS was to be implemented in three phases, but now, it will be implemented in four phases.

[d]The original life-cycle cost estimate represents the estimate for DIMHRS. While the Navy and Air Force have estimated their respective life-cycle cost estimate, the Army is in the process of completing its life-cycle cost estimate.

[e]As of December 2009, the life-cycle cost estimate for DAI had not been finalized. According to the PMO, the life cycle cost estimate is expected to be approved at Milestone B in fiscal year 2011.

[36]A life-cycle cost estimate provides an accounting of all resources and associated cost elements required to develop, produce, deploy, and sustain a particular program. The life-cycle cost estimate encompasses all past, present, and future costs for every aspect of the program, regardless of funding source.

Effective and sustained leadership and oversight of the department's ERP implementations is needed to ensure that these important initiatives are implemented on schedule, within budget, and result in the integrated capabilities needed to transform the department's financial management and related business operations.

Closing Comments

In closing, I am encouraged by continuing congressional oversight of DOD's financial management improvement efforts and the commitment DOD's leaders have expressed to improving the department's financial management and achieving financial statement audit readiness.

For instance, we have seen positive short-term progress on the part of DOD in moving forward. In its May 2010 FIAR status report, DOD reported actions it had taken in response to the 2010 NDAA and our prior recommendations to enhance effectiveness of the FIAR Plan as a strategic plan and management tool for guiding, monitoring, and reporting on the department's efforts to resolve its financial management weaknesses and achieve audit readiness. The department has expanded the FIAR governance body to include the Chief Management Officer, issued guidance to aid DOD components in their efforts to address their financial management weaknesses and achieve audit readiness, and standardized component financial improvement plans to facilitate oversight and monitoring, as well as sharing lessons learned. In addition, DOD has revised its FIAR strategy to focus its financial management improvement efforts on departmentwide priorities, first on budgetary information and preparing the department's Statements of Budgetary Resources for audit and second on accountability over the department's mission-critical assets as a way of improving information used by DOD leaders to manage operations and to more effectively demonstrate incremental progress toward achieving audit readiness.

Whether promising signs, such as shared priorities and approaches, develop into sustained progress will ultimately depend on DOD leadership and oversight to help achieve successful implementation. The expanded FIAR governance framework, including the CMOs, is a start; but their specific roles and responsibilities toward the department's financial management improvement efforts still need to be defined. Importantly, sustained and effective leadership, oversight, and accountability at the department and component levels will be needed in order to help ensure that DOD's current efforts to achieve auditability by a defined date don't follow the path of the department's prior efforts and fall short of obtaining sustained substantial improvement.

The revised FIAR strategy is still in the early stages of implementation, and DOD has a long way and many long-standing challenges to overcome, particularly in regard to active and sustained leadership and oversight, before its military components and the department are fully auditable, and financial management is no longer considered high risk. However, the department is heading in the right direction. Some of the most difficult challenges ahead lie in effectively implementing the department's strategy, including successful implementation of ERP systems and integration of financial management improvement efforts with other DOD initiatives. We will be issuing a report on DOD's business system modernization efforts in October 2010 that discusses in greater detail the cost, schedule, and other issues that have hindered the success of important efforts.

GAO will continue to monitor progress of the department's financial management improvement efforts and provide feedback on the status of DOD's financial management improvement efforts. We currently have work in progress to assess implementation of the department's FIAR strategy through ongoing or recently initiated engagements related to (1) the U.S. Marine Corps' (USMC) efforts to achieve an audit opinion on its Statement of Budgetary Resources, which regardless of its success should provide lessons learned that can be shared with other components, (2) the military departments' implementation of the FIAR strategy and guidance, and (3) the department's efforts to develop and implement ERPs. In addition, we will continue our oversight and monitoring of DOD's financial statement audits, including the Army Corps of Engineers and DOD consolidated financial statements.

Mr. Chairman and Ranking Member McCain, this concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the Subcommittee may have at this time.

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Appendix I: Impact of Financial Management and Related Weaknesses on DOD Operations

Despite years of improvement efforts since 2002, DOD has annually reported to Congress that the department is unable to provide reasonable assurance that the information reported in its financial statements is reliable due to long-standing weaknesses in its financial management and related business processes, controls, and systems.[1] Importantly, these weaknesses not only affect the reliability of the department's financial reports, as illustrated in the following examples, they also adversely affect the department's ability to assess resource requirements; control costs; ensure basic accountability; anticipate future costs and claims on the budget; measure performance; maintain funds control; prevent fraud waste, abuse, and mismanagement; and address pressing management issues, as the following examples illustrate,

- The Army Budget Office lacks an adequate funds control process to provide it with ongoing assurance that obligations and expenditures do not exceed funds available in the Military Personnel, Army (MPA) appropriation.[2] In June 2010, we reviewed Army obligation and expenditure reports pertaining to Army's fiscal year 2008 MPA appropriation and confirmed[3] that the Army had violated the Antideficiency Act,[4] as evidenced by the Army's need to transfer $200 million from the Army working capital fund to cover the shortfall.[5] This shortfall stemmed, in part, from a lack of reliable financial information on enlistment and reenlistment contracts, which provide specified bonuses to service members. Army Budget personnel explained that they rely on

[1]The National Defense Authorization Act for Fiscal Year 2002, Pub. L. 107-107, §1008, 115 Stat. 1204 (Dec. 28, 2001) requires DOD to report annually on the reliability of its financial statements, including the financial statements of each of its components that are required to prepare financial statements.

[2]An obligation is a definite commitment that creates a legal liability of the government for the payment of appropriated funds for goods and services ordered and received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Obligations include, for example, the awarding of contracts and grants.

[3]GAO, *Department of the Army—The Fiscal Year 2008 Military Personnel, Army Appropriation and the Antideficiency Act*, B-318724 (Washington, D.C.: June 22, 2010).

[4]31 U.S.C. §§ 1341-42, 1349-51, 1511-19. The Antideficiency Act prohibits any DOD officer or employee from incurring obligations or making expenditures in excess or in advance of appropriations or apportionments.

[5]In September 2006, the DOD IG reported a similar factual situation to the one addressed in GAO's report when it evaluated the Army's use of its fiscal year 2005 MPA appropriation. See Department of Defense, Office of the Inspector General, *Selected Controls Over the Military Personnel, Army Appropriation*, D-2006-112 (Arlington Va.: Sept. 22, 2006).

estimated obligations, rather than actual data from program managers, to record the initial obligation or adjust the estimated obligation due to inadequate financial management systems. Without adequate processes, controls, and systems to establish and maintain effective funds control, the Army's ability to prevent, identify, and report potential Antideficiency Act violations is impaired.

- While DOD has invested over a trillion of dollars to acquire weapon systems, also referred to as military equipment,[6] the department continues to lack the processes and system capabilities to reliably identify, aggregate and report the full cost of its investment in these assets. We reported this as an issue to the Air Force over 20 years ago.[7] In July 2010, we reported[8] that although DOD and the military departments have efforts underway to begin addressing these financial management weaknesses, DOD officials acknowledged that additional actions were needed that will require the support of other business areas beyond the financial community, before they will be fully addressed. Without timely, reliable, and useful financial information on the full cost[9] associated with acquiring assets, both DOD management and Congress lack key information needed for use in effective decision making, such as determining how to allocate resources to programs or evaluating program performance to help strengthen oversight and accountability.

- The department's ability to identify, aggregate, and use financial management information to develop plans for managing and controlling operating and support costs for major weapons systems is limited. DOD spends billions of dollars each year to sustain its weapon systems. These operating and support (O&S) costs can account for a significant portion of

[6] Military equipment are weapons systems that can be used directly by the Armed Forces to carry out battlefield missions.

[7] GAO, *Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources,* GAO/AFMD 90-23 (Washington, D.C.: Feb. 23, 1990).

[8] GAO, *Department of Defense: Additional Actions Needed to Improve Financial Management of Military Equipment,* GAO-10-695 (Washington, D.C. July 26, 2010).

[9] Full cost is the sum of direct and indirect costs. Direct costs are costs that can be specifically identified with an output, including salaries and benefits for employees working directly on the output, materials, supplies, and costs with facilities and equipment used exclusively to produce the output. Indirect costs are costs that are not specifically identifiable with any output and may include costs for general administration, research and technical support, and operations and maintenance for buildings and equipment. See Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts* (Washington, D.C.: July 31, 1995).

a weapon's system's total life-cycle costs and include costs for, among other things, repair parts, maintenance, and contract services. However, in July 2010 we reported that the department lacked key information needed to effectively manage and reduce O&S costs for most of the weapon systems we reviewed—including life-cycle O&S cost estimates and consistent and complete historical data on actual O&S costs.[10] Specifically, we found that the military departments lacked (1) life-cycle O&S cost estimates developed at the production milestone for five of the seven aviation systems we reviewed and (2) complete data on actual O&S costs.[11] Without historical life-cycle O&S cost estimates and complete data on actual O&S costs, DOD officials lack important data for analyzing the rate of O&S cost growth for major weapon systems, identifying cost drivers, and developing plans for managing and controlling these costs.

- The department and military services continue to have difficultly effectively deploying business systems, on time, within budget, and with the functionality intended to significantly transform business operations. For example, in April 2010, we reported that the management processes the Army established prior to the second deployment of its Logistics Modernization Program (LMP)[12] were not effective in managing and overseeing the second deployment of this system.[13] Specifically, we found that due to data quality issues, the Army was unable to ensure that the data used by LMP were of sufficient quality to enable the Corpus Christi and Letterkenny Army depots to perform their day-to-day missions after LMP became operational at these locations. For example, LMP could not automatically identify the materials needed to support repairs and ensure that parts would be available in time to carry out the repairs. Labor rates were also missing for some stages of repair, thereby precluding LMP from computing labor costs for the repair projects. As a result of these data issues, manual work-around processes had to be developed and used in

[10]GAO, *Defense Management: DOD Needs Better Information and Guidance to More Effectively Manage and Reduce Operating and Support Costs of Major Weapon Systems*, GAO-10-717 (Washington, D.C.: July 20, 2010).

[11]GAO reviewed the following seven major aviation systems: the Navy's F/A-18E/F; the Air Force's F-22A, B-1B, and F-15E; and the Army's AH-64D, CH-47D, and UH-60L.

[12]LMP is an Army business system that is intended to replace aging Army systems than manage inventory and depot repair operations. LMP was originally scheduled to be completed by 2005, but after the first deployment in July 2003, the Army delayed fielding because of significant problems, including data quality and testing issues.

[13]GAO, *Defense Logistics: Actions Needed to Improve Implementation of the Army Logistics Modernization Program*, GAO-10-461 (Washington, D.C.: Apr. 30, 2010).

order for the depots to accomplish their repair missions. Furthermore, the performance measures the Army used to assess implementation failed to detect that manual work-arounds rather than LMP were used to support repair missions immediately following LMP's implementation at the depots. Without adequate performance measures to evaluate how well these systems are accomplishing their desired goals, DOD decision makers including program managers do not have all the information they need to evaluate their systems investments to determine the extent to which individual programs are helping DOD achieve business transformation, including financial management, and whether additional remediation is needed.

- In addition to the DOD IG reports on internal controls and compliance with laws and regulations included in DOD and military department annual financial reports, the DOD IG has other reports highlighting a variety of internal controls weaknesses[14]in the department's financial management that affect DOD operations[15] as the following illustrate.

  - In January 2010, the DOD IG evaluated the internal controls over the USMC transactions processed through the Deployable Disbursing System (DDS)[16] and determined that USMC did not maintain adequate internal controls to ensure the reliability of the data processed.[17] Specifically, the DOD IG found that USMC disbursing personnel had not complied with the statute when authorizing vouchers for payment or segregated certifying duties from disbursing when making payments. Further, the DOD IG found that USMC personnel had circumvented internal controls restricting access to DDS information. As a result, the

[14]DOD auditors have reported material financial management weaknesses in the following areas: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Account Receivable, (4) Inventory, (5) Operating Materials and Supplies; (6) General Property, Plant, and Equipment; (7) Government-Furnished Material and Contractor-Acquired Material; (8) Accounts Payable; (9) Environment Liabilities; (10) Statement of Net Cost; (11) Intragovernmental Eliminations, (12) Other Accounting Entries, and (13) Reconciliation of Net Cost of Operations to Budget.

[15]See the DOD IG's report on internal controls included in the annual Department of Defense Financial Reports.

[16]DDS is a system that automates a variety of disbursing office functions including travel, military, commercial, and miscellaneous payments; accounts payable; collection processes; and financial reporting requirements.

[17]DOD Inspector General, *Internal Controls Over United States Marine Corps Commercial and Miscellaneous Payments Processed Through the Deployable Disbursing System*, D-2010-037 (Arlington, Va: Jan. 25, 2010).

DOD IG concluded that USMC was at risk of incurring unauthorized, duplicate, and improper payments.

- In June 2009, the DOD IG reported that the Army did not have adequate internal controls over accountability for approximately $169.6 million of government-furnished property at two Army locations reviewed.[18] Specifically, the DOD IG found that Army personnel had not ensured the proper recording of transfers of property accountability to contractors, physical inventories and reconciliation, or the identification of government property at these locations. As a result, the DOD IG concluded that the Army's property accountability databases at these two locations were misstated and these two Army locations were at risk of unauthorized use, destruction or loss of government property.

[18] DOD Inspector General, *Internal Controls Over Government Property in the Possession of Contractors at Two Army Locations*, D-2009-089 (Arlington, Va: June 18, 2009).

Appendix II: Description of Key Enterprise Resource Planning Efforts

The department stated that implementation of the following nine ERPs are critical to transforming the department's business operations and addressing some of its long-standing weaknesses. A brief description of each ERP is presented below.

The General Fund Enterprise Business System (GFEBS) is intended to support the Army's standardized financial management and accounting practices for the Army's general fund,[1] with the exception of that related to the Army Corps of Engineers which will continue to use its existing financial system, the Corps of Engineers Financial Management System.[2] GFEBS will allow the Army to share financial, asset and accounting data across the active Army, the Army National Guard, and the Army Reserve. The Army estimates that when fully implemented, GFEBS will be used to control and account for about $140 billion in spending.

The Global Combat Support System-Army (GCSS-Army) is expected to integrate multiple logistics functions by replacing numerous legacy systems and interfaces. The system will provide tactical units with a common authoritative source for financial and related non-financial data, such as information related to maintenance and transportation of equipment. The system is also intended to provide asset visibility for accountable items. GCSS-Army will manage over $49 billion in annual spending by the active Army, National Guard, and the Army Reserve.

The Logistics Modernization Program (LMP) is intended to provide order fulfillment, demand and supply planning, procurement, asset management, material maintenance, and financial management capabilities for the Army's working capital fund. The Army has estimated that LMP will be populated with 6 million Army-managed inventory items valued at about $40 billion when it is fully implemented.

The Navy Enterprise Resource Planning System (Navy ERP) is intended to standardize the acquisition, financial, program management, maintenance, plant and wholesale supply, and workforce management capabilities at six

[1]The general fund can be defined as the fund into which receipts are deposited, except those from specific sources required by law to be deposited into other designated funds and from which appropriations are made by Congress to carry on the general and ordinary operations of the government.

[2]According to the GFEBS PMO, once the system is fully operational the Army will assess the feasibility of GFEBS becoming the system of record for the Corps of Engineers.

Navy commands.[3] Once it is fully deployed, the Navy estimates that the system will control and account for approximately $71 billion (50 percent), of the Navy's estimated appropriated funds—after excluding the appropriated funds for the Marine Corps and military personnel and pay.

The Global Combat Support System–Marine Corps (GCSS-MC) is intended to provide the deployed warfighter enhanced capabilities in the areas of warehousing, distribution, logistical planning, depot maintenance, and improved asset visibility. According to the PMO, once the system is fully implemented, it will control and account for approximately $1.2 billion of inventory.

The Defense Enterprise Accounting and Management System (DEAMS) is intended to provide the Air Force the entire spectrum of financial management capabilities, including collections, commitments and obligations, cost accounting, general ledger, funds control, receipts and acceptance, accounts payable and disbursement, billing, and financial reporting for the general fund. According to Air Force officials, when DEAMS is fully operational, it is expected to maintain control and accountability for about $160 billion.

The Expeditionary Combat Support System (ECSS) is intended to provide the Air Force a single, integrated logistics system—including transportation, supply, maintenance and repair, engineering and acquisition—for both the Air Force's general and working capital funds. Additionally, ECSS is intended to provide the financial management and accounting functions for the Air Force's working capital fund operations. When fully implemented, ECSS is expected to control and account for about $36 billion of inventory.

The Service Specific Integrated Personnel and Pay Systems are intended to provide the military departments an integrated personnel and pay system.[4]

[3]The six Navy commands are the Naval Air Systems Command, the Naval Supply Systems Command, the Space and Naval Warfare Systems Command, the Naval Sea Systems Command, the Strategic Systems Program, and the Office of Naval Research and Strategic Systems Planning.

[4]The military services integrated personnel and pay systems are replacement systems for the Defense Integrated Military Human Resources System that was intended to provide a joint, integrated, standardized personnel and pay system for all military personnel.

Defense Agencies Initiative (DAI) is intended to modernize the defense agencies' financial management processes by streamlining financial management capabilities and transforming the budget, finance, and accounting operations. When DAI is fully implemented, it is expected to have the capability to control and account for all appropriated, working capital and revolving funds at the defense agencies implementing the system.

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