



Highlights of [GAO-08-896](#), a report to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

## Why GAO Did This Study

The Department of Defense (DOD) has long been challenged in implementing key information technology (IT) management controls on its thousands of business system investments. For this and other reasons, GAO has designated DOD's business systems modernization efforts as high-risk. One of the larger business system investments is the Department of the Navy's Enterprise Resource Planning (Navy ERP) program. Initiated in 2003, the program is to standardize the Navy's business processes, such as acquisition and financial management. It is being delivered in increments, the first of which is to cost about \$2.4 billion over its useful life and be fully deployed in fiscal year 2013. GAO was asked to determine whether key IT management controls are being implemented on the program. To do this, GAO analyzed, for example, requirements management, economic justification, earned value management, and risk management.

## What GAO Recommends

GAO is making recommendations to the Secretary of Defense aimed at improving cost and schedule estimating, earned value management, and risk management weaknesses. DOD largely agreed with GAO's recommendations and described actions planned or under way to address them.

To view the full product, including the scope and methodology, click on [GAO-08-896](#). For more information, contact Randolph C. Hite at (202) 512-3439 or [hiter@gao.gov](mailto:hiter@gao.gov).

# DOD BUSINESS SYSTEMS MODERNIZATION

## Important Management Controls Being Implemented on Major Navy Program, but Improvements Needed in Key Areas

### What GAO Found

DOD has implemented key IT management controls on its Navy ERP program to varying degrees of effectiveness. To its credit, the control associated with managing system requirements is being effectively implemented. In addition, important aspects of other controls have at least been partially implemented, including those associated with economically justifying investment in the program and proactively managing program risks. Nevertheless, other aspects of these controls, as well as the bulk of what is needed to effectively implement earned value management, which is a recognized means for measuring program progress, have not been effectively implemented. Among other things, these control weaknesses have contributed to the more than 2-year schedule delay and the almost \$600 million cost overruns already experienced on the program since it began, and they will likely contribute to future delays and overruns if they are not corrected. Examples of the weaknesses are provided below.

- Investment in the program has been economically justified on the basis of expected benefits that far exceed estimated costs (\$8.6 billion versus \$2.4 billion over a 20-year life cycle). However, important estimating practices, such as using historical cost data from comparable programs and basing the cost estimate on a reliable schedule baseline were not employed. While these weaknesses are important because they limit the reliability of the estimates, GAO's analysis shows that they would not have altered the estimates to the point of not producing a positive return on investment.
- Earned value management has not been effectively implemented. To its credit, the program office has elected to implement program-level earned value management. In doing so, however, basic prerequisites for effectively managing earned value have not been executed. In particular, the integrated master schedule was not derived in accordance with key estimating practices, and an integrated baseline review has not been performed on any of the first increment's releases.
- A defined process for proactively avoiding problems, referred to as risk management, has been established, but risk mitigation strategies have not been effectively implemented for all significant risks, such as those associated with data conversion and organizational change management, as well the risks associated with the above-cited weaknesses.

The reasons that program management and oversight officials cited for these practices not being executed range from the complexity and challenges of managing and implementing a program of this size to limitations in the program office's scope and authority. Notwithstanding the effectiveness with which important aspects of several controls have been implemented, the above-cited weaknesses put DOD at risk of investing in a system solution that does not optimally support corporate mission needs and mission performance, and meet schedule and cost commitments.