

Inspector General

United States
Department of Defense



Enterprise Resource Planning Systems
Schedule Delays and Reengineering Weaknesses
Increase Risks to DoD's Auditability Goals

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Acronyms and Abbreviations

BPR	Business Process Reengineering
CMO	Chief Management Officer
DAI	Defense Agencies Initiative
DCMO	Deputy Chief Management Officer
DEAMS	Defense Enterprise Accounting and Management System
DLA	Defense Logistics Agency
EBS	Enterprise Business System
EC	Energy Convergence
ERP	Enterprise Resource Planning
FIAR	Financial Improvement and Audit Readiness
GAO	Government Accountability Office
GFEBs	General Fund Enterprise Business System
LMP	Logistics Modernization Program
OIG	Office of Inspector General
PMO	Program Management Office
SFIS	Standard Financial Information Structure
USD(C)/CFO, DoD	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
USSGL	U.S. Standard General Ledger



INSPECTOR GENERAL
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July 13, 2012

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
DOD DEPUTY CHIEF MANAGEMENT OFFICER
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses
Increase Risks to DoD's Auditability Goals (Report No. DODIG-2012-111)

We are providing this report for your review and comment. We conducted this audit in response to a congressional request. DoD plans to spend more than \$15 billion to develop and implement Enterprise Resource Planning systems. Schedule delays and cost increases for the systems have resulted in DoD continuing to use outdated legacy systems and diminish the estimated savings associated with transforming business operation through business system modernization. In addition, the impact of schedule delays increases the risk that DoD will not achieve an auditable Statement of Budgetary Resources by FY 2014 or accomplish its goal of full financial statement audit readiness by FY 2017. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that recommendations be resolved promptly. The comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, were responsive and we do not require additional comments. The DoD Deputy Chief Management Officer did not respond to the draft report. Therefore, we request the DoD Deputy Chief Management Officer provide comments on Recommendations B.1.a and B.1.b by August 13, 2012. The Chief Management Officers of the Army, Navy, and Air Force provided comments. The comments from the Chief Management Officer of the Navy were responsive, and we do not require additional comments. The comments from the Chief Management Officers of the Army and the Air Force were partially responsive. Therefore, we request the Chief Management Officers of the Army and Air Force provide additional comments on Recommendations B.1.a and B.1.b by August 13, 2012.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send a portable document format (.pdf) file containing your comments to audcleve@dodig.mil. Comments provided to the final report must be marked and portion-marked, as appropriate, in accordance with DoD Manual 5200.01. Copies of management comments must contain the actual signature of the authorizing official. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905.

A handwritten signature in cursive script that reads "Amy J. Frontz".

Amy J. Frontz, CPA
Principal Assistant Inspector General
for Auditing



Results in Brief: Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals

What We Did

We conducted this audit in response to a congressional request. Our overall objective was to evaluate six Enterprise Resource Planning (ERP) systems that we identified as necessary for DoD to produce auditable financial statements.

What We Found

The six ERP systems experienced cost increases of \$8.0 billion and schedule delays ranging from 1.5 to 12.5 years during system development and implementation. As a result of the schedule delays, DoD will continue using outdated legacy systems and diminish the estimated savings associated with transforming business operations through business system modernization. In addition, the impact of schedule delays increases the risk that DoD will not achieve an auditable Statement of Budgetary Resources by FY 2014 or accomplish its goal of full financial statement audit readiness by FY 2017.

The DoD Deputy Chief Management Officer (DCMO) and the Chief Management Officers (CMO) of the Military Departments (DoD officials) did not verify that business processes were streamlined and efficient as required by Public Law 111-84, "National Defense Authorization Act For Fiscal Year 2010," Section 1072, "Business Process Reengineering," October 28, 2009. This occurred because DoD officials relied on the Program Management Offices' self compliance assertions when they certified and approved funding of \$302.7 million, instead of reviewing the business processes and verifying the

accuracy, completeness, and reliability of the Program Management Office submissions. As a result, there is an increased risk the ERP systems will incur additional delays and cost increases to ensure the systems are as streamlined and efficient as possible.

What We Recommend

We recommend that the DoD DCMO and CMOs of the Army, Navy, and Air Force, develop procedures to review business processes and limit funding to programs that are not demonstrating adequate business process reengineering.

In addition, we recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO), DoD, update the Financial Improvement and Audit Readiness Plan to link material weaknesses' resolutions to DoD ERP systems and track the effect of DoD ERP systems on DoD's goals of obtaining auditable financial statements.

Management Comments and Our Response

The DoD DCMO did not respond to the draft report. The USD(C)/CFO, DoD, and the CMOs of the Army, Navy, and Air Force agreed with our recommendations; however, the Army and Air Force CMOs did not address corrective actions. Therefore, we request the DoD DCMO, provide comments and the CMOs of the Army and Air Force provide additional comments. Please see the recommendations table on the back of this page. In addition, the Navy ERP Program Management Office provided comments on the finding discussion.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD		B.2.a, B.2.b
DoD Deputy Chief Management Officer	B.1.a, B.1.b	
Chief Management Officer of the Army	B.1.a, B.1.b	
Chief Management Officer of the Navy		B.1.a, B.1.b
Chief Management Officer of the Air Force	B.1.a, B.1.b	

Please provide comments by August 13, 2012.

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Introduction

Objectives

This audit was in response to a September 13, 2011, congressional request related to the increasing costs and delayed schedules of some of the DoD Enterprise Resource Planning (ERP) systems. The Government Accountability Office (GAO) previously reported DoD did not follow best practices for estimating ERP schedules and cost, resulting in unreliable estimates. The requestors wanted to determine whether the investment in ERP systems would result in reliable information and auditable financial statements and records.

Our overall objective was to evaluate the ERP systems identified as necessary for DoD to produce auditable financial statements. Specifically, we determined:

- changes in cost of the ERP systems during development and implementation;
- the impact of schedule changes on DoD's goal to become auditable by 2017;
- compliance with Public Law 111-84, "National Defense Authorization Act For Fiscal Year 2010," Section 1072, "Business Process Reengineering," October 28, 2009, (Section 1072); and
- whether the Deputy Chief Management Officer (DCMO) of the DoD, and Chief Management Officers (CMOs) of the Military Departments (DoD officials) provided sufficient oversight during development and implementation of the ERP systems.

In February 2012, we met with the congressional requestors to discuss the status of the ERP systems audit work and agreed to obtain information from DoD on the reasons for the cost increases and schedule delays.

See Appendix A for a discussion of the scope and methodology and prior audit coverage.

DoD DCMO and CMOs of the Military Departments Responsibilities for Business System Modernization

The DCMO is the Principal Staff Assistant and advisor to the Secretary of Defense and Deputy Secretary of Defense for matters relating to the management and improvement of integrated DoD business operations. DoD formally established the DCMO through DoD Directive 5105.82, October 17, 2008. As part of this Directive, the Department assigned the responsibility for better synchronizing, integrating, and coordinating the business operations of the DoD to the DCMO to ensure optimal alignment in support of the warfighting mission. The Directive also gave specific duties in the areas of strategic planning, performance management, process improvement, and defense business systems oversight to the DCMO. Since that time, the DCMO's responsibilities have continued to grow. In addition to its normal duties, the DCMO collaborates with the CMOs of the Military Departments in identifying common issues relating to the management and

improvement of business operations within and among their respective Departments. Each CMO is responsible for developing a comprehensive business transformation plan. The plan is required to track progress toward achieving an integrated system for business operations. In addition, Public Law 110-417, “Duncan Hunter National Defense Authorization Act For Fiscal Year 2009,” Section 908, “Business Transformation Initiatives for the Military Departments,” October 14, 2008, required CMOs to develop a well-defined enterprise-wide business systems architecture and transition plan encompassing end-to-end business processes capable of providing accurate and timely information in support of business decisions of the military department.

Financial Improvement and Audit Readiness Plan Dependence on ERP Systems

The Financial Improvement and Audit Readiness (FIAR) Plan states that it is the DoD roadmap to fix internal controls, correct processes, and obtain an unqualified audit opinion. The 2011 FIAR Plan discussed the challenge of meeting the Defense Secretary’s new goals of audit readiness of the Statement of Budgetary Resources by FY 2014 and audit readiness for all DoD financial statements by FY 2017. The “National Defense Authorization Act of 2010,” October 28, 2009, requires DoD financial statements to be validated as ready for audit not later than September 30, 2017. The FIAR Plan states that the key to achieving Federal Financial Management Improvement Act compliance, and for most of the DoD Components to producing auditable financial statements, is the modernization of the DoD’s business and financial systems environment. The FIAR Plan also states that modernization includes the deployment of ERP systems and the retirement of hundreds of legacy systems. The FIAR Plan integrates solutions, such as upgraded systems with improvements to processes; however, the FIAR Plan does not specifically align ERP systems being implemented with achieving the audit readiness deadlines. The importance of ERP systems on auditability has consistently been reported in the FIAR Plans. For instance, the 2006 FIAR Plan identifies 11 material weaknesses¹ identified by DoD Office of Inspector General (OIG) audits. Of the 11 identified, 6 are to be resolved by effectively implementing 1 or more ERP systems. The FIAR Plan also states that achieving an opinion on the DoD Consolidated Financial Statements will not occur until the Department successfully deploys numerous new finance and business systems. The guidance for the FIAR Plan states that reporting entities implementing the ERP systems as a solution for resolving audit impediments should map known processes and control weaknesses to the new systems’ requirements to ensure that the systems will adequately address the impediments.

Background on ERP Systems

The DoD OIG identified the following six ERP systems that are needed to enable the Department to produce auditable financial statements: General Fund Enterprise Business System (GFEBS), Logistics Modernization Program (LMP), Defense Enterprise Accounting and Management System (DEAMS), Defense Agencies Initiative (DAI),

¹ Material weaknesses are a reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

Navy ERP, Enterprise Business System (EBS)-Energy Convergence (EC), and EBS-EProcurement². DoD implemented other ERP systems; however, during this audit, we did not review the ERP systems identified in Appendix B. Background information for the six systems reviewed is discussed below.

- GFEBs was an Army financial management system developed to improve the timeliness and reliability of financial information and to obtain an audit opinion.
- LMP was the Army's core initiative to achieve the Single Army Logistics Enterprise vision. LMP's objective was to provide integrated logistics management capability by managing the supply, demand, asset availability, distribution, data retention, financial control, and reporting.
- DEAMS was approved as a joint U.S. Transportation Command, Defense Finance and Accounting Service, and Air Force project to replace legacy systems. DEAMS is the Air Force's target accounting system designed to provide accurate, reliable, and timely financial information.
- DAI was an initiative to transform the budget, finance, and accounting operations of the Defense agencies to achieve accurate and reliable financial information. During this audit, DAI was used across eight agencies in DoD.
- Navy ERP was an integrated business management system implemented to update and standardize Navy business operations, provide financial transparency across the enterprise, and increase effectiveness and efficiency.
- EBS was originally called the Business Systems Modernization, a SAP³ supply chain and logistics capability module utilized by the Defense Logistics Agency (DLA). DLA implemented its current ERP system through functionality based enhancements as separate acquisition programs. DLA combined the first three enhancements; Business Systems Modernization, Customer Relationship Management, and Product Data Management Initiative into what is now referred to as the EBS-Core, which reached full deployment decision in 2007. DLA began to add enhancements to the EBS-Core and each enhancement was considered a separate program with separate funds. When the enhancement reached sustainment, ongoing costs for the sustainment were incorporated into the EBS-Core; however, original development, implementation, and phase-out costs were not incorporated into the core. EProcurement and EC were the two enhancements not fully deployed and included business process reengineering (BPR) efforts that have costs of more than \$100 million.
 - EBS-EC was an enhancement program extending the EBS-Core supply chain capabilities.
 - EBS-EProcurement was an enhancement program extending EBS to provide a single tool for contract writing and administration for consumables and service.

² EBS-EC and EBS-EProcurement are two acquisition programs to develop enhancements to EBS; however, we consider EBS one system for purposes of this audit.

³ SAP stands for "Systems, Applications, and Products in Data Processing." The SAP Corporation is the market leader in enterprise application software.

Table 1 provides more details on the status of the ERP systems.

Table 1. System Background

System Name	Initial Deployment Date	Current Number of System Users	Planned Number of System Users	Planned Number of Legacy Systems to Be Replaced
Army				
GFEBs	2008	46,000	53,000	107
LMP	2003	21,000	21,000	2
Navy				
Navy ERP	2007	40,000	66,000	96
Air-Force				
DEAMS	2007	1,200	30,000	8
DoD				
DAI	2008	8,000	94,000	15
EBS-EC	2011	Unknown*	700	7
EBS-EProcurement	2010	1,500	4,000	3

* Cannot identify the number of EC users because they are not individually identified in SAP.

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness. DoD officials relied on self compliance assertions when they certified and approved funding for ERP systems, instead of reviewing the business processes and verifying the accuracy, completeness, and reliability of the submissions.

We will provide a copy of the final report to the senior officials responsible for internal controls in the Offices of the DoD Deputy Chief Management Officer, and Chief Management Officers of the Army, Navy, and Air Force.

Finding A. DoD Cost Increases and Schedule Delays Incurred in ERP Development and Implementation

For the six ERP systems, DoD experienced life-cycle cost increases of \$8.0 billion and schedule delays ranging from 1.5 to 12.5 years during system development and implementation. The Program Management Offices (PMOs) provided explanations for the cost increases and schedule delays as detailed below.

GFEBs - GFEBs PMO personnel stated that costs increased as a result of different inflation factors applied to each estimate. In addition, current estimates include additional costs for GFEBs that were not budgeted for in the Milestone A Economic Analysis; schedule delays occurred because the initial schedule was overly aggressive, subject matter expert participation was inconsistent, and the Business Transformation Agency⁴ added new requirements.

LMP - LMP PMO personnel stated that cost increases and schedule delays occurred as a result of unanticipated complexities associated with implementing a commercial-off-the-shelf software solution of this magnitude. LMP was originally developed under a service contract, fully deployed as of October 2010, and in sustainment as of November 2011. The Acting Under Secretary of Defense for Acquisition, Technology, and Logistics, signed an acquisition decision milestone on December 27, 2011, that moved LMP into Increment 2 with the intent of improving logistics capabilities while also improving reliability of financial information and related auditable financial statements.

Navy ERP - Navy ERP PMO personnel stated that cost increases and schedule delays resulted from 2005 base realignment and closure decisions, new requirements, a need for increased onsite support, increased sustainment costs necessary to maintain acceptable service levels, and Office of the Secretary of Defense staffing issues.

DEAMS - DEAMS PMO personnel stated that cost increases resulted from schedule changes, unknown and refined requirements; schedule delays occurred as a result of the complexity of re-engineering business processes; designing, developing, and testing modifications to the commercial-off-the-shelf replacement system; and addressing more than 3,400 problem reports documented during testing.

DAI - DAI PMO personnel stated cost increases and schedule delays resulted from adapting unique mission requirements to the commercial-off-the-shelf replacement system. In addition, the PMO assumed the role of systems'

⁴ The Secretary of Defense disestablished the Business Transformation Agency on October 1, 2011. However, its core functions were incorporated into the Office of the DCMO and its direct program management responsibilities for specific enterprise defense business systems in the DLA.

integrator and replaced the original systems' integration contractor with multiple contractors. The PMO also increased data migration tools and used more resources for BPR efforts and training than initially planned. PMO personnel also stated that agencies using DAI requested delayed implementation as a result of base realignment and closure activities.

EBS - EBS PMO personnel stated that cost increases resulted from schedule slippages related to base realignment and closure decisions. They also stated that a "strategic pause" occurred in the program from February through June 2008 as a result of DLA reprioritizing their information technology priorities and reprogramming funds planned for EC. In addition, the Systems Integrator contract, awarded in November 2009, was protested and resulted in a stop work order. The protest was resolved, but the stop work order was not lifted until June 2010. PMO personnel stated that some system modules were delayed because they relied on program upgrades and enhancements that were required before the implementation of the new module.

As a result of the schedule delays, DoD will continue using outdated legacy systems and diminish the estimated savings associated with transforming business operations through business system modernization. In addition, the impact of schedule delays increases the risk that DoD will not achieve an auditable Statement of Budgetary Resources by FY 2014 or accomplish its goal of full financial statement audit readiness by FY 2017. The following tables identify changes in cost and schedule for the six systems reviewed.

Schedule delays increase the risk that DoD will not achieve an auditable Statement of Budgetary Resources by FY 2014...

Table 2. Cost Changes

System Name	Original Life-Cycle Cost Estimate (\$ in millions)	Current Life-Cycle Cost Estimate (\$ in millions) ¹	Difference (\$ in millions)
Army			
GFEBs	\$1,353.9	\$1,425.3	\$71.4
LMP ²	\$420.9	4,359.7	3,938.8
Navy			
Navy ERP	\$1,632.9	2,237.3	604.4
Air-Force			
DEAMS ²	\$419.9	2,158.9	1,739.0
DoD			
DAI	\$209.2	266.0	56.8
EBS-Core	\$2,134.8	3,325.3	1,190.5
EBS-EC	\$715.9	701.2	(14.7)
EBS-EProcurement	360.6	774.4	413.8
Total	\$7,248.1	\$15,248.1	\$8,000.0

¹ Information as of February 24, 2012.

² Cost includes increments 1 and 2; however, only Increment 1 was baselined.

Table 3. Schedule Changes

System Name	Original Full Deployment	Current Full Deployment*	Difference
Army			
GFEBs	December 2009	July 2012	2.5 years
LMP	June 2004	September 2016	12.5 years
Navy			
Navy ERP	June 2011	August 2013	2.0 years
Air-Force			
DEAMS	October 2009	April 2017	7.5 years
DoD			
DAI	October 2011	January 2016	4.5 years
EBS-Core	October 2005	July 2007	2.0 years
EBS-EC	October 2012	June 2014	1.5 years
EBS-EProcurement	October 2011	September 2013	2.0 years

* Information as of May 7, 2012.

GAO Work Related to DoD ERP Costs and Schedules

Since 2007, GAO issued a number of reports on DoD ERP management issues for five of the six ERP systems in our audit. GAO’s work supports our findings related to schedule delays and cost increases.

GAO-11-53, “DOD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed,” October 7, 2010, responded to congressional requests to, among other things, assess the scheduling and cost estimating practices of selected ERP systems DoD identified as essential to transforming its business operations. The GAO analyses of the schedules and cost estimates for four ERP programs found that none of the programs were fully following best practices for developing reliable schedules and cost estimates. The report stated:

[m]ore specifically, none of the programs had developed a fully integrated master schedule that reflects all activities, including both government and contractor activities. In addition, none of the programs established a valid critical path or conducted a schedule risk analysis. We have previously reported that the schedules for [Global Combat Support System - Marine Corps] and Navy ERP were developed using some of these best practices, but several key practices were not fully employed that are fundamental to having a schedule that provides a sufficiently reliable basis for estimating costs, measuring progress, and forecasting slippages.

The GAO report stated that the PMOs acknowledged the importance of the scheduling best practices, but they stated that their ability to implement the best practices is limited because of the complex ERP development process and the use of firm-fixed-price contracts. Firm-fixed-price contracts do not require contractors to provide detailed and timely scheduling data, which is necessary to prepare accurate and reliable schedules. The GAO report also stated that the PMOs are responsible for preparing an integrated

master schedule in accordance with best practices to adequately monitor and oversee their investment in the modernization of DoD's business systems.

The GAO report stated that although the ERP programs were generally following cost estimating best practices, the cost estimates for three of the four systems were not fully credible because two of the systems did not include a sensitivity analysis and one of the systems did not include a sensitivity analysis or a cost risk and uncertainty analysis. Cost estimates should discuss any limitations of the analysis because of uncertainty surrounding data and assumptions. Further, because none of the four met best practices for schedule estimating, none of the cost estimates could be considered credible because they did not assess the cost effects of schedule slippage.

In a March 30, 2012, letter (GAO-12-565R) to congressional requestors, GAO provided updated information on DoD's reported status for each of the nine ERP systems as of December 31, 2011. For the systems included in our audit, GAO reported that two systems had additional schedule increases and two systems incurred additional cost increases since the October 2010 report. In addition, they reported that DAI still had not developed a current life cycle cost estimate.

In 2007, 2008, and 2009, GAO made 19 recommendations to improve the management of DoD ERP efforts; DoD agreed with the recommendations. The 2010 report made eight additional recommendations aimed at improving cost and schedule practices and the development of performance measures to determine whether the ERP systems' intended goals are accomplished. The GAO indicated that eight recommendations made from 2007 through 2009 and the eight recommendations made in the 2010 report remain open.

Our objective was to gather and provide current data and reasons for cost increases and schedule delays; consequently, we are not making recommendations. However, the 2010 GAO report made recommendations that address deficiencies for ERP systems. If DoD implements these recommendations, improvements to cost and schedule practices can be achieved.

Management Comments on the Finding and Our Response

Department of Army Comments on DoD Cost Increases and Schedule Delays Incurred in Enterprise Resource Planning Development and Implementation

Although not required to comment, the Army DCMO provided comments on the finding discussion.

The Army DCMO stated that the programs are reviewed at the Army and DoD level and although costs and time continue to grow, the Army is adding additional functionality, and on-track to support the DoD FY 2017 auditability target dates. The Army DCMO stated that Tables 2 and 3 overstate the schedule and cost positions attributed to the LMP. LMP Increment I achieved Full Deployment in December 2011 and Increment II of LMP should be listed separately for both cost and schedule.

Our Response

We understand that LMP was originally implemented under a service contract and provided details on how LMP was originally implemented and the December 2011 acquisition decision milestone that moved LMP into Increment II. However, our intent is to capture the entire life-cycle cost estimates (both original and current) for all systems in the report. Therefore we include all phases of the systems in the estimates. In addition, Increment II is being implemented in part to add required financial functionality that was not originally included.

Department of Navy Comments on DoD Cost Increases and Schedule Delays Incurred in Enterprise Resource Planning Development and Implementation

Although not required to comment, the Navy ERP PMO provided comments on the finding discussion.

The Navy ERP Deputy Program Manager provided several updates to the figures located in Tables 1 and 2. Specifically, she recommended updating the number of current users and number of planned systems user to 66,000 and 72,000, respectively. In addition, she recommended changing the current lifecycle cost estimate to \$2,137.2 million, to reflect the program's current estimate.

Our Response

We acknowledge the changes suggested by the Navy ERP Deputy Program Manager; however, our figures reflect amounts that the Navy ERP PMO provided during the audit. We understand that these figures can change over time as programs progress through development and implementation. We are reporting figures documented at the time our fieldwork was conducted.

Finding B. DCMO and CMOs Need to Verify PMO Self Compliance Assertions

For the six ERP systems, the DoD DCMO and the CMOs of the Military Departments (DoD officials) did not verify that business processes were streamlined and efficient as required by Section 1072. DoD officials relied on the PMOs' self compliance assertions when they certified and approved funding of \$302.7 million for the six ERP systems instead of reviewing the business processes and verifying the accuracy, completeness, and reliability of the PMO submissions, as required by DoD DCMO's "Guidance for the Implementation of Section 1072 - Business Process Reengineering," April 30, 2011. As a result, there is an increased risk the ERP systems will incur additional cost increases, schedule delays, and affect the DoD's ability to achieve an auditable Statement of Budgetary Resources by FY 2014 and audit readiness for all DoD financial statements by FY 2017.

Section 1072 of the FY 2010 National Defense Authorization Act

Section 1072 introduced new requirements into DoD's investment review process stipulating that defense business system modernizations may not be certified to obligate funds in excess of \$1 million without first making a determination on whether or not appropriate BPR had been completed. Section 1072 requires BPR determinations be made by the DoD DCMO or one of the Military Department CMOs, depending on which Components' business processes the defense business system modernization supports. Section 1072 states that the DoD DCMO or Military Department CMO should determine whether appropriate BPR efforts were undertaken to ensure that the business processes to be supported by the defense business system modernization will be as streamlined and efficient as possible. In addition, the need to tailor commercial-off-the-shelf systems to meet unique requirements should be eliminated or reduced to the maximum extent practicable. If the DoD DCMO or Military Department CMO determines that appropriate BPR efforts were not undertaken, the DoD DCMO or Military Department CMO may direct that the business system modernization be restructured or terminated, if necessary, to meet the BPR requirements.

Guidance for the Implementation of Section 1072 - Business Process Reengineering

DoD DCMO's "Guidance for the Implementation of Section 1072 - Business Process Reengineering," April 30, 2011, provides long-term direction to Functional Sponsors, Program Managers, non-Military Department Pre-Certification Authorities, Military Department CMOs and the Investment Review Boards on implementation of Section 1072. DoD DCMO issued interim guidance on February 12 and April 1, 2010. Compliance with the guidance is required for all defense business system modernization certifications and recertifications in accordance with section 2222, title 10, United States Code. As defense business systems progress through their development or modernization efforts and return to the Investment Review Boards, the BPR assessment process will seek to avoid redundancy with previous reviews.

BPR Process for DoD DCMO

The DoD DCMO guidance states that the DoD DCMO is responsible for evaluating each BPR Assessment Form and objective evidence⁵ package for non-Military Department programs and programs supporting business processes of more than one Military Department or Defense Agency. The Non-Military Department Component Pre-Certification Authority is responsible for recommending approval of BPR certification to the DoD DCMO. Cross-functional BPR Assessment Review Teams were formed to support this review process. Upon receipt of the BPR Assessment Review Team recommendation, the DoD DCMO will determine the sufficiency of the program's BPR effort. The DCMO's determination will be communicated to the Investment Review Boards through memorandum.

BPR Process for Military Department CMOs

The DoD DCMO guidance also states that the Military Department CMOs are responsible for evaluating each BPR Assessment Form and objective evidence package for their Military Department programs. Upon receipt of the BPR Assessment Form and objective evidence package, the CMO will determine the sufficiency of the program's BPR effort. The CMOs determination will be communicated to the Investment Review Board through the CMO Determination Memorandum.

BPR Assessment Packages Need Review

DoD officials did not verify that the PMOs properly referenced the BPR assessment form to objective evidence and obtain and review the objective evidence to verify the answers in the BPR assessment form. This occurred because DoD officials relied on the PMOs' self compliance assertions when they certified and approved funding of \$302.7 million

DoD officials relied on the PMOs' self compliance assertions when they certified and approved funding of \$302.7 million for the six ERP systems instead of reviewing the business processes and verifying the accuracy, completeness, and reliability of the PMO submissions...

for the six ERP systems, instead of reviewing the business processes and verifying the accuracy, completeness, and reliability of the PMO submissions, as required by DoD DCMO's guidance. For example, as shown in Table 4 (page 12), DoD officials approved funding for six systems without ensuring that adequate process maps were developed. Process maps were key documents that demonstrate how

the business processes in the new ERP system will be more streamlined and efficient. The BPR assessment form contained questions on whether the PMO developed "As-Is" and "To-Be" process maps for the business processes. According to the DoD DCMO guidance, the "As-Is" process map should identify the inefficiencies with the old business process, and the "To-Be" process map should identify how the new process will address the inefficiencies.

⁵ Examples of objective evidence may include, but are not limited to, DoD or Component strategic plans, business case analyses, implementation and training plans, requirements lists, baseline performance information.

All six BPR assessment forms provided by the PMOs and submitted to DoD officials for recertification approval indicated that they completed the “As-Is” and “To-Be” process maps. We requested and were provided “As-Is” and “To-Be” process maps for the business processes supported by the GFEBs, LMP, and EBS systems; however, the “As-Is” maps did not illustrate the inefficiencies that required solutions, and the “To-Be” maps did not explain how GFEBs, LMP, and EBS processes will address the inefficiencies. We requested “As-Is” and “To-Be” process maps for the remaining three ERP systems, Navy ERP, DEAMS, and DAI, but the PMOs did not develop the required maps. Navy ERP PMO stated that they did not develop “As-Is” and “To-Be” process maps even though they indicated on their BPR Assessment Form that these maps were developed. DEAMS PMO stated that they did not create “As-Is” maps and that the DEAMS system itself was the “To-Be” solution. DAI PMO indicated in their BPR assessment form that they developed the “As-Is” and “To-Be” maps, but when we requested the maps, the DAI PMO stated they did not develop the “As-Is” and “To-Be” maps at the PMO level and that the individual agencies that use DAI would have the maps. However, the four agencies that use DAI completed their own BPR assessment forms, and three of the four indicated that they did not develop the required process maps. The remaining agency indicated that they developed the maps, but the DAI PMO did not have evidence to support it. The following table summarizes the status of the six systems process maps, date of CMOs determination, funding approval date, and amount.

Table 4. BPR Recertifications and Funding Approval

System Name	Process Maps Prepared Adequately	CMO Determination Letter Signed	Latest DBSMC¹ Funding Approval	Funding Amount (\$ in millions)
Army				
GFEBs	No	July 25, 2011	September 30, 2011	\$24.5
LMP	No	October 17, 2011	December 23, 2011	51.7
Navy				
Navy ERP	Not Completed	August 29, 2011	September 30, 2011	73.2
Air-Force				
DEAMS	Not Completed	NONE ²	February 27, 2012	66.6
DoD				
DAI	Not Completed	NONE ²	September 30, 2011	65.3
EBS-(EC)	No	NONE ²	January 13, 2012	15.4
EBS-EProcurement	No	NONE ²	December 23, 2011	6.0
Total				\$302.7

¹ Defense Business Systems Management Committee

² Designates systems that should have been reviewed by the DoD DCMO according to Section 1072 implementation guidance. The DoD DCMO relied on the Air Force and DLA determinations that sufficient BPR had been conducted and did not develop required determination memorandums.

In addition, according to DoD DCMO guidance, the DoD DCMO was responsible for evaluating each BPR assessment form and objective evidence package for non-Military

Department programs and programs supporting business processes of more than one Military Department or Defense agency. The DoD DCMO was responsible for evaluating the DEAMS, DAI, and EBS systems' BPR packages and should have issued a DoD DCMO Determination Memorandum stating whether appropriate BPR was conducted. We requested the DoD DCMO Determination Memorandums from the DoD DCMO, but the DoD DCMO indicated that they did not create determination memos for DEAMS, DAI, and EBS; and they relied on the PMOs' assertions that appropriate BPR was conducted. For example, the DEAMS PMO did not update their BPR assessment form to comply with July 1, 2011, DoD DCMO Section 1072 Implementation Guidance. Instead, the DEAMS PMO prepared an outdated form⁶ that did not include all requirements, such as the "As-Is" and "To-Be" maps. The DoD DCMO continued to recertify the DEAMS system based upon the PMOs' self assertion that appropriate BPR had been conducted.

DoD officials approved recertification requests for \$302.7 million without verifying BPR efforts were streamlined and efficient as required by Section 1072. This occurred because DoD officials did not provide sufficient oversight of the BPR efforts and relied on PMO self assertions without verifying that the information provided by the PMO in the BPR packages was accurate, complete, and reliable. Previously issued DoD OIG and GAO audit reports identified inefficiencies that still exist within ERP systems (see Appendix C for a summary of Prior Audit Issues). As a result, there is an increased risk that the ERP systems will incur additional delays and cost increases to ensure the systems are as streamlined and efficient as possible. DoD officials should establish procedures to verify that the PMO BPR submissions are well-developed and reliable to ensure business process reengineering efforts are successful and conducted and completed in accordance with Section 1072 before approving additional funding.

BPR Has a Direct Impact on Financial Statement Readiness Goals

Strong oversight of BPR practices are needed to help the DoD achieve its auditability goals. As indicated in the FIAR Plan, DoD is relying on implementation of ERP systems for achieving their goal of an auditable Statement of Budgetary Resources by FY 2014 and audit readiness for all DoD financial statements by FY 2017. The FIAR Plan states that the dates for the deployment of systems drive the Department's ability to achieve auditability. However, the FIAR Plan does not specifically align ERP systems schedules and tie the schedule to audit readiness deadlines.

DoD OIG and GAO prior audit work determined that the BPR efforts for implementing ERP systems have not demonstrated that the ERP systems are as streamlined and efficient as possible. As a result, there is increased risk to DoD's ability to meet the goal of an auditable Statement of Budgetary Resources by FY 2014 and audit readiness for all DoD financial statements by FY 2017. DoD struggled for years to come up with a system strategy plan that would provide success in financial reporting and auditability

⁶ DEAMS used the DoD DCMO's interim guidance to complete their BPR Assessment. The interim guidance was effective from February 2010 to June 2011 when the DoD DCMO's final guidance was implemented effective July 1, 2011.

and without the appropriate level of oversight will likely not succeed through ERP implementation. DoD officials need to be more proactive and provide more oversight during development and implementation of DoD ERP systems. DoD officials should verify systems are in compliance with DoD Financial and BPR requirements and guidance before approving the ERP systems for development, implementation, and the corresponding funding. In addition, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD [USD(C)/CFO, DoD], should align the FIAR Plan auditability goals with the ERP systems implementation schedules to demonstrate the effect of any schedule delays impact on these goals.

Management Comments on the Finding and Our Response

Department of Army Management Comments on Deputy Chief Management Officer and Chief Management Officers Need to Verify Program Management Office Self Compliance Assertions

The Army DCMO provided comments on the finding discussion. The Army DCMO stated that the Army does not dispute the facts contained within the report; however, the Army believes the conclusions were based on a limited review and these ERP systems represent only minor risk to Army financial auditability goals. The Army DCMO stated that both GFEBS and LMP systems were already developed and substantially deployed at the time the BPR reengineering law was enacted. The Army DCMO further stated that the report based its conclusion on a single set of documents that were submitted to the Office of the Secretary of Defense Investment Review Board in 2011, a point in time when LMP Increment 1 had been fully deployed for a year and GFEBS was more than 50 percent deployed.

Our Response

We acknowledge and agree with the statement that the LMP and GFEBS program were considerably mature before the enactment of Section 1072. However, the intent of the Section 1072, and the subsequent guidance issued by the DoD DCMO, was to ensure that the implementation of defense business systems was undertaken to improve upon existing business processes and practices. Our findings focused on the BPR packages submitted after the enactment of Section 1072. The FIAR plan and the FY 2012 Army Audit Readiness Strategy both emphasize dependence on successful ERP systems for reaching auditability goals. However, previously issued DoD OIG and GAO reports related to both LMP and GFEBS indicate improvements are required for these systems to reach financial compliance.

Department of Navy Management Comments on Deputy Chief Management Officer and Chief Management Officers Need to Verify Program Management Office Self Compliance Assertions

Although not required to comment, the Navy ERP PMO provided comments on the “As-Is” and “To-Be” finding discussion. The Navy ERP Deputy Program Manager stated that the “As-Is” documentation is not in the form of process maps. Rather the “As-Is” documentation is completed through SAP-standard templates that are then used for gap analysis as compared to the commercial-off-the-shelf “To-Be” process. The Navy ERP

solution is the target “To-Be” business processes for all System Commands as they implement Navy ERP. The Navy ERP Deputy Program Manager further explained that the Navy ERP fully defined and mapped the “To-Be” business processes. Specifically, Navy ERP mapped all of the business processes from Level 1 down to Level 6 (the actual transactional step) and recorded all of them in the System Architect process modeling tool.

Our Response

The objective of obtaining the “As-Is” and “To-Be” process maps was to determine if the DoD ERPs documented business process maps that detailed what problems existed with the old business process and the subsequent corrections to those problems with the new process. During the course of our fieldwork, we requested the “As-Is” and “To-Be” process maps that would identify those problems and corrections and received a response that these items did not exist. We acknowledge that there may be other documentation that could be provided and examined that may show some support for business process reengineering. However, documenting the gap analysis of the “As-Is” process to the commercial-off-the-shelf “To-Be” process does not identify the existing problems and how the “To-Be” process will correct those problems. Future audits will examine end-to-end business processes in greater detail to ensure that those processes have been reengineered in accordance with the National Defense Authorization Act requirements.

Recommendations, Management Comments, and Our Response

B.1. We recommend that the DoD Deputy Chief Management Officer and Chief Management Officers of the Army, Navy, and the Air Force:

a. Develop procedures to independently review the business processes and verify that the information contained in business process reengineering assessment forms is accurate, complete, reliable, and supported in accordance with Office of the Deputy Chief Management Officer, “Guidance for the Implementation of Section 1072 - Business Process Reengineering,” April 30, 2011.

b. Develop procedures to limit funding to programs that are not demonstrating adequate business process reengineering.

Management Comments Required

The DoD DCMO did not comment on the recommendations. We request that the DoD DCMO provide comments in response to the final report by August 13, 2012.

Department of the Army and Air Force Comments

The Army DCMO and the Air Force Director of Business Transformation and Deputy Chief Management Officer agreed with our recommendations.

Our Response

Comments from the Army DCMO and the Air Force Director of Business Transformation and Deputy Chief Management Officer were partially responsive. The Army DCMO and the Air Force Director of Business Transformation and Deputy Chief

Management Officer agreed with the recommendations; however, they did not identify corrective actions the Army and Air Force would take to resolve Recommendations B.1.a and B.1.b. We request the Army DCMO and the Air Force Director of Business Transformation and Deputy Chief Management Officer provide additional comments by August 13, 2012, detailing the planned corrective actions and corresponding dates of completion for Recommendations B.1.a and B.1.b.

Department of the Navy Comments

The Deputy Under Secretary of the Navy/Deputy Chief Management Officer agreed with the recommendations and stated that the Department of Navy incorporated the BPR requirement into its Business Capability Lifecycle process and the Navy continues to identify improvements through all the sustainment/modernization phases. In FY 2012, the Navy Investment Review Board process was changed to allow more time for the Navy's DCMO to review the BPR Assessment form and ensure that the "As-Is" and "To-Be" processes are documented. A memo was distributed on March 2, 2012, with the goal to reestablish the Investment Review Board package submission at least 65 calendar days before the Investment Review Board meeting. The memo also included the condition that any late submissions will be subject to additional management internal controls. In addition, he stated that the Business Capability Lifecycle process used for Defense Business Systems requires that BPR must be completed before new projects are authorized. By not allowing a project to start if appropriate BPR was not completed, this process is already limiting funding.

Our Response

The Deputy Under Secretary of the Navy/Deputy Chief Management Officer's comments were responsive. If the Deputy Under Secretary of the Navy/Deputy Chief Management Officer incorporates the process changes described in their response and ensures that BPR packages are complete, accurate, and supported before approving programs for funding, they will address the intent of recommendation B.1.a and B.1.b. We require no additional comments.

B.2. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, update the Financial Improvement and Audit Readiness Plan to:

a. Link material weaknesses' resolutions to Enterprise Resource Planning systems being implemented and identify how and when they will correct the deficiencies.

b. Track the effect of Enterprise Resource Planning systems' implementation schedule delays on DoD's goals of obtaining auditable Statement of Budgetary Resources by FY 2014 and audit readiness for all DoD financial statements by FY 2017.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The Deputy Chief Financial Officer agreed with the recommendations, and stated the May 2012 FIAR Plan Status Report included expanded information related to ERP systems. Specifically, the May 2012 report included: system overview and relationship to audit readiness; impact on legacy systems; program cost for releases, waves, and/or increments needed to support full auditability by FY 2017; projected dates for testing and related corrective actions for information technology general controls; and implementation and deployment milestones. In addition, future FIAR Plan Status Reports will expand reporting to include information on information technology application controls.

Our Response

The Deputy Chief Financial Officer comments were responsive, and the actions met the intent of the recommendations. We require no additional comments.

Appendix A. Scope and Methodology

We conducted this performance audit from November 2011 through May 2012 in accordance with generally accepted government auditing standards. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit focused on changes in cost of the ERP systems, GFEBS, LMP, DEAMS, DAI, Navy ERP, EBS-EC, and EBS-EProcurement, during development and implementation; impact of ERP system schedule changes in DoD's goal to become auditable by 2017; ERP systems compliance with the business process reengineering requirements of Section 1072; and whether the DoD DCMO and CMOs of the Military Departments provided sufficient oversight during development and implementation of the ERP systems.

Cost

We obtained original life-cycle cost estimates and the most current life-cycle cost estimates from the following documentation provided by the PMOs: service cost positions, business cases, acquisition program baselines, defense acquisition management, major automated information system quarterly report, analysis of alternatives, economic analysis, e-mails and meetings. The PMOs developed the estimates using a mixture of current year and base year values (to adjust for inflation). We did not validate these numbers to source documents or adjust them for inflation. We compared the original life-cycle cost estimates to the current life-cycle cost estimates and identified the difference for each system to calculate changes in cost using the values provided by the PMOs. In addition, we obtained an explanation for the differences identified from the PMOs.

Schedule

We obtained the original full deployment estimate and the most current full deployment estimate from PMOs through integrated master schedules, project schedules, waterfall charts, acquisition strategy chronologies, economic analyses, test and evaluation plans, draft notional schedules, and emails. We did not validate the accuracy of the dates provided. We calculated changes in schedule by comparing the original full deployment estimate to the current full deployment estimate using the dates provided by the PMOs and identified the difference. In addition, we obtained an explanation for the differences from the PMOs.

We reviewed FIAR Plans for FY 2005 through FY 2011 from the USD(C)/CFO, DoD's Web site to identify ERP implementation schedules in alignment with audit readiness dates.

Compliance With Section 1072

We interviewed personnel from the PMOs, DoD DCMO, and CMOs of the Military Departments and obtained BPR assessment packages. We compared documents in the BPR assessment packages to Section 1072 and its implementation requirements to determine whether organizations complied.

Oversight

We interviewed personnel from the offices of the USD(C)/CFO, DoD; DoD DCMO; and CMOs of the Military Departments regarding their involvement and oversight in the development and implementation of the ERP systems and requested supporting documentation.

To accomplish these steps, we contacted and interviewed DoD officials from the following locations:

- Program Executive Office Enterprise Information Systems; Navy DCMO; Air Force DCMO; Business Integration Office; USD(C)/CFO, DoD; Army DCMO; Army Office of Business Transformation; Assistant Secretary of the Army; Financial Management and Comptroller; and Assistant Secretary of the Air Force, Financial Management and Comptroller, Arlington, Virginia;
- Logistics Modernization PMO, Marlton, New Jersey;
- DEAMS PMO, Dayton, Ohio;
- DEAMS Functional Management Office, Fairview Heights, Illinois;
- Navy ERP PMO, Annapolis, Maryland;
- EBS PMO and DLA, Fort Belvoir, Virginia; and
- Office of the DCMO, GFEBS PMO, DAI PMO, and DLA, Alexandria, Virginia.

Use of Computer-Processed Data

We did not rely on computer-processed data.

Prior Coverage

During the last 5 years, the GAO issued three reports and the DoD OIG issued six reports discussing the ERP systems. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/audit/reports>.

GAO

GAO Report No. 12-565R, “DoD Financial Management: Reported Status of Department of Defense’s Enterprise Resource Planning Systems,” March 30, 2012

GAO Report No. 12-134, “DoD Financial Management: Implementation Weaknesses in Army and Air Force Business Systems Could Jeopardize DoD’s Auditability Goals,” February 28, 2012

GAO Report No. 11-53, “DoD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed,” October 7, 2010

DoD OIG

DoD OIG Report No. 2012-087, “Logistics Modernization Program System Procure-to-Pay Process Did Not Correct Material Weaknesses,” May 29, 2012

DoD OIG Report No. 2012-066, “General Fund Enterprise Business Did Not Provide Required Financial Information,” March 26, 2012

DoD OIG Report No. 2012-051, “Navy Enterprise Resource Planning System Does Not Comply With the Standard Financial Information Structure and U.S. Government Standard General Ledger,” February 13, 2012

DoD OIG Report No. 2011-072, “Previously Identified Deficiencies Not Corrected in the General Fund Enterprise Business System Program,” June 15, 2011

DoD OIG Report No. 2011-015, “Insufficient Governance Over Logistics Modernization Program System Development,” November 2, 2010

DoD OIG Report No. 2008-041, “Management of the General Fund Enterprise Business System,” January 14, 2008

Appendix B. DoD ERP Systems Not Included in This Audit

Our audit focused on six ERP systems that were identified in our response to a congressional request as the six main financial ERP systems needed to enable the DoD to produce auditable financial statements. The FIAR Plan further identified the following seven systems as important to improving audit readiness. We did not review these systems during this audit.

Army

Global Combat Support System

The Global Combat Support System-Army will integrate the Army supply chain, obtain accurate equipment readiness, support split base operations, and get up-to-date status on maintenance actions and supplies in support of the warfighter.

Integrated Personnel and Pay System

The Integrated Personnel and Pay System-Army will be the Army's integrated pay system, replacing the legacy systems and serving as a critical piece of the Army's future state systems environment. The military departments' integrated personnel and pay systems are intended to provide joint, integrated, and standardized personnel and pay for all military personnel and replace the Defense Integrated Military Human Resources System that was initiated in February 1998 and discontinued in 2010.

Navy

Global Combat Support System-Marine Corps

Global Combat Support System-Marine Corps was initiated in September 2003 and was intended to provide the deployed warfighter with enhanced capabilities in the areas of warehousing, distribution, logistical planning, depot maintenance, and improved asset visibility.

Integrated Pay and Personnel System

Integrated Pay and Personnel System-Navy is the Navy's integrated personnel and pay system. The military departments' integrated personnel and pay systems are intended to provide joint, integrated, and standardized personnel and pay for all military personnel and replace the Defense Integrated Military Human Resources System that was initiated in February 1998 and discontinued in 2010.

Air Force

Expeditionary Combat Support System

The Expeditionary Combat Support System is the Air Force's future logistics system that includes related financial management, engineering, and contracting functions. The Expeditionary Combat Support System enables the transformation of Air Force Logistics by replacing the majority of legacy logistics systems with a single solution set of business processes, software applications, and data. The Expeditionary Combat Support System solution will provide timely, consistent, and accurate information to enhance operations resulting in standardized business processes and tools across the entire enterprise, regardless of program or site.

Integrated Personnel and Pay System

The Air Force-Integrated Personnel and Pay System is the Air Force's future integrated personnel and pay system that will consolidate Guard, Reserve, and active duty Military into a single system for personnel and pay related services. The military departments' integrated personnel and pay systems are intended to provide joint, integrated, and standardized personnel and pay for all military personnel and replace the Defense Integrated Military Human Resources System that was initiated in February 1998 and discontinued in 2010.

NexGenIT

The NexGenIT will leverage industry best practices, optimize core business processes, and replace existing information technology capabilities with a commercial off-the-shelf software solution to perform real estate portfolio and lease management, space management, and maintenance management for real property throughout the Air Force.

Appendix C. ERP Systems Problems Identified in Prior DoD OIG and GAO Audit Reports

Previously issued DoD OIG and GAO audit reports identified problems within ERP systems.

DoD OIG Report No. 2012-087, “Logistics Modernization Program System Procure-to-Pay Process Did Not Correct Material Weaknesses,” May 29, 2012. Army financial and system managers did not reengineer LMP to perform Procure-to-Pay functions correctly or correct known material weaknesses. This occurred because LMP developers did not identify the system requirements needed to correct the root causes of material weaknesses, and Army managers did not review control activities to assess internal control effectiveness. As a result, Army managers did not discontinue the use of costly business processes, and LMP failed to provide reliable financial data. As of August 31, 2011, LMP activities reported more than \$10.6 billion in abnormal balances within the Procure-to-Pay general ledger accounts. The DCMO should review legacy registration processes to determine whether DoD can incorporate registry databases into the System for Award Management. The Army should also create and manage vendor master data based on the System for Award Management and establish a vendor master data manager. Further, the Army should improve LMP system access controls and assess the LMP Procure-to-Pay business process. The DCMO; Assistant Secretary of the Army (Financial Management and Comptroller); and Director, Army Office of Business Transformation, agreed with our recommendations and provided comments that were generally responsive. However, the Assistant Secretary of the Army (Financial Management and Comptroller) and Director, Army Office of Business Transformation, comments did not fully address what actions will be taken to correct the reported deficiencies.

DoD OIG Report No. 2012-066, “General Fund Enterprise Business System Did Not Provide Required Financial Information,” March 26, 2012. GFEBS did not contain accurate and complete FY 2010 United States Standard General Ledger (USSGL) and Standard Financial Information Structure (SFIS) information as required by the Federal Financial Management Improvement Act of 1996 and USD(C)/CFO, DoD, guidance. Specifically,

- the GFEBS Chart of Accounts did not contain 7 of the 153 USSGL accounts and 28 of the 233 DoD reporting accounts included in the FY 2010 Army General Fund Trial Balance;
- the Army did not maintain detailed program documentation to determine whether the Army properly used the 847 posting accounts in GFEBS;
- GFEBS did not consistently enter accurate and complete values at the transaction level for 11 of the 20 required USSGL and SFIS attributes reviewed in Special Ledger 95 or for 8 of the 20 required attributes in the Z1 ledger; and

- GFEBS did not provide sufficient trading partner information in the FY 2010 GFEBS Trial Balance.

This occurred because USD(C)/CFO, DoD personnel did not provide timely updates to the DoD Standard Chart of Accounts, and the Assistant Secretary of the Army (Financial Management and Comptroller) did not provide adequate oversight for maintaining the GFEBS Chart of Accounts or ensuring that GFEBS consistently entered values for all the attributes required by USSGL and SFIS. As a result, GFEBS did not provide DoD management with required financial information. In addition, GFEBS may not resolve the Army General Fund's long-standing Financial Management Systems and Intragovernmental Eliminations material weaknesses, despite costing the Army \$630.4 million, as of October 2011. The USD(C)/CFO, DoD should implement procedures to streamline DoD Chart of Accounts updates. The USD(C)/CFO, DoD partially agreed and stated that several updates were incorporated into the DoD Chart of Accounts update process over the past year. He indicated that while the USD(C)/CFO, DoD's mission was to provide updates on a timely basis, ensuring the accuracy and consistency of the guidance was imperative. The Assistant Secretary of the Army (Financial Management and Comptroller) should not deploy GFEBS to additional users until it can ensure through reviews and validation that GFEBS consistently enters required attributes. The Assistant Secretary of the Army (Financial Management and Comptroller), did not agree and stated that the audit was based on GFEBS data, as of September 30, 2010. She indicated that at that time, GFEBS was not fully deployed or developed, was transacting less than two percent of the Army's obligation activity, and was not configured to meet Treasury reporting requirements. She stated that, as a result, the missing ledger accounts and other data elements in the report had little impact on the reliability of the data reported by GFEBS. In addition, Assistant Secretary of the Army (Financial Management and Comptroller) should update the GFEBS Chart of Accounts with the capability to post to the 28 DoD reporting accounts identified in this report. The Assistant Secretary of the Army (Financial Management and Comptroller) did not agree or disagree, and stated that the 28 general ledger accounts were added to the GFEBS Chart of Accounts in February 2011.

DoD OIG Report No. 2012-051, "Navy Enterprise Resource Planning System Does Not Comply With the Standard Financial Information Structure and U.S. Government Standard General Ledger, February 13, 2012. The Navy developed and approved deployment of Navy ERP to 54 percent of its obligation authority, valued at \$85 billion for FY 2011, without ensuring that the Navy ERP complied with SFIS and USSGL. This occurred because the Navy did not have an adequate plan to incorporate SFIS requirements into the development and implementation of the Navy ERP, did not develop an adequate validation process to assess compliance with SFIS requirements, implemented the Navy ERP to accommodate existing Navy Chart of Accounts and noncompliant procedures, and failed to implement processes necessary to support requirements. As a result, the Navy spent \$870 million to develop and implement a system that might not produce accurate and reliable financial information. The Under Secretary of Defense for Acquisition, Technology, and Logistics, should review the Navy ERP System's Business Enterprise Architecture compliance status to ensure adequate progress is being made toward the planned FY 2015 SFIS compliance date before

approving deployment to additional commands. The Under Secretary of Defense for Acquisition, Technology, and Logistics partially agreed. The Under Secretary of Defense for Acquisition, Technology, and Logistics will work with the Under Secretary of the Navy to assure adequate progress is being made toward the planned FY 2015 SFIS compliance date. The Defense Business Systems Management Committee Chairman should track the configuration and implementation of business enterprise architecture requirements to ensure adequate progress is being made toward the planned SFIS compliancy date and require the Investment Review Board to update guidance for assessing SFIS compliance to include an independent validation before making a system certification recommendation. DCMO partially agreed and stated that DCMO believed deployment and configuration could be accomplished concurrently. Therefore, DCMO recommended changing the wording of the recommendation to have the Investment Review Board track the configuration and implementation progress of business enterprise architecture requirements for each funding certification until the Navy demonstrates that the Navy ERP complies with the business enterprise architecture requirements, such as SFIS. The Assistant Secretaries of the Navy (Research, Development, and Acquisition and Financial Management and Comptroller) should implement SFIS requirements for the Navy ERP and use the independent SFIS validation to improve the validation process. The Navy agreed. The Navy Financial Management Office will support Navy ERP PMO with SFIS submission preparation guidance and review the system's SFIS checklist and the proposed implementation plan. The Assistant Secretaries of the Navy (Research, Development, and Acquisition and Financial Management and Comptroller) should update the Navy ERP Chart of Accounts to include all USSGL/DoD accounts used to prepare Navy financial statements. The Navy partially agreed. The Navy Financial Management Office is in the process of evaluating the 110 general ledger accounts mentioned in the audit. The Navy's plan is to implement appropriate accounts in the Navy ERP system.

DoD OIG Report No. 2011-015, "Insufficient Governance Over Logistics Modernization Program System Development," November 2, 2010. The Army developed and deployed LMP to Army Working Capital Fund activities without ensuring that the system was USSGL compliant. This occurred because Army and DoD financial communities did not establish the appropriate senior-level governance needed to develop, test, and implement the LMP financial management requirements and processes needed to record Army Working Capital Fund financial data at the transaction level. As a result, LMP was not substantially compliant with the Federal Financial Management Improvement Act of 1996. The system also did not resolve any of the Army Working Capital Fund's internal control weaknesses. Therefore, the Army will need to spend additional funds to comply with USSGL requirements and achieve an unqualified audit opinion on its Army Working Capital Fund financial statements. The USD(C)/CFO, DoD and DCMO should advise the Deputy Secretary of Defense and Deputy Director for Management at the Office of Management and Budget to select LMP as a high-risk system for review. The USD(C)/CFO, DoD and DCMO agreed and stated that LMP was designated to participate in the Financial Systems Review in accordance with Office of Management and Budget Memorandum M-10-26. We also recommend that they delay further LMP deployment until, at the minimum, the Army demonstrates that funding is

available and it has an approved plan in place to comply with the SFIS requirements. The USD(C)/CFO, DoD and DCMO partially agreed and stated that they did not believe they should delay LMP implementation until the cost benefit analysis or DoD Efficiencies Task Force review are completed. However, the USD(C)/CFO, DoD and DCMO agreed that the Army should demonstrate the availability of funding and ensure that a plan is in place to establish the SFIS requirements and DoD Standard Chart of Accounts at the transaction level. They should also update guidance for specific general ledger accounts and transaction codes and validate compliance with these requirements. The USD(C)/CFO, DoD and DCMO agreed and stated that DoD issued an updated DoD Standard Chart of Accounts and SFIS posting guidance for FY 2010 and FY 2011. The Assistant Secretary of the Army (Financial Management and Comptroller) should assume operational control over developing, approving, and implementing LMP financial requirements. The Assistant Secretary of the Army (Financial Management and Comptroller) agreed and stated that she would continue to provide oversight of LMP developmental activities through use of the Army's Business System Information Technology Executive Steering Group. In addition, she stated that her office would monitor changes to the USSGL and DoD Standard Chart of Accounts to ensure that the LMP Chart of Accounts remains up-to-date.

GAO Report No. 12-134, "DoD Financial Management: Implementation Weaknesses in Army and Air Force Business Systems Could Jeopardize DoD's Auditability Goals," February 28, 2012. Assessments by independent agencies of the Army's GFEBS and the Air Force's DEAMS identified operational problems, such as deficiencies in data accuracy, inability to generate auditable financial reports, and the need for manual workarounds. Further, according to Defense Finance and Accounting Service users, GFEBS and DEAMS did not provide all expected capabilities in accounting and decision support. For example, approximately two-thirds of invoice and receipt data must be manually entered into GFEBS from the invoicing and receiving system due to interface problems. Army officials explained that the primary cause of the problem is that the interface specification that GFEBS is required by DoD to use does not provide the same level of functionality as the interface specification used by the legacy systems. Army officials stated that they are working with DoD to resolve the problem, but no time frame for resolution had been established. In addition, DEAMS cannot produce the monthly accounts receivable aging report as intended. The DEAMS Financial Management Office was aware of the problems and was in the process of resolving them. However, the DEAMS Financial Management Office did not establish a time frame for the problems' resolution. DoD oversight authority has limited the deployment of GFEBS and DEAMS based upon the results of the independent assessments. GAO made five recommendations to the Secretary of Defense to ensure the correction of system problems before to further system deployment, including user training. DoD agreed with four and partially agreed with one of the recommendations and described its efforts to address them.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

JUN 14 2012

MEMORANDUM FOR PRINCIPAL ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Comments on Draft Audit Report, "Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals" (Project No. D2012-D000DE-0057.000)

This memorandum is in response to your request for comments on recommendation B.2., contained in the subject draft audit report dated May 29, 2012. Upon review of the draft report we concur with your recommendation that we update the Financial Improvement and Audit Readiness Plan to:

- Link material weaknesses' resolutions to Enterprise Resource Planning systems being implemented and identify how and when they will correct the deficiencies; and
- Track the effect of Enterprise Resource Planning systems' implementation schedule delays on DoD's goals of obtaining auditable Statement of Budgetary Resources by Fiscal Year (FY) 2014 and audit readiness for all DoD financial statements by FY 2017.

Our detailed response is attached. We appreciate the opportunity to respond to the audit recommendations. My point of contact is [REDACTED]. She can be reached by telephone at [REDACTED] or [REDACTED].

A handwritten signature in black ink, appearing to read "Mark E. Easton".

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

**DOD OIG DRAFT REPORT DATED MAY 29, 2012
IG PROJECT NUMBER D2012-D000DE-0057.000**

**“ENTERPRISE RESOURCE PLANNING SYSTEMS SCHEDULE DELAYS AND
REENGINEERING WEAKNESSES INCREASE RISKS TO DOD’S AUDITABILITY
GOALS”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE DOD OIG RECOMMENDATIONS**

RECOMMENDATION B.2.: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer update the Financial Improvement and Audit Readiness Plan to:

- a. Link material weaknesses’ resolutions to Enterprise Resource Planning systems being implemented and identify how and when they will correct the deficiencies.
- b. Track the effect of Enterprise Resource Planning systems’ implementation schedule delays on DoD’s goals of obtaining auditable Statement of Budgetary Resources by FY 2014 and audit readiness for all DoD financial statements by FY 2017.

DoD RESPONSE: Concur. The May 2012 Financial Improvement and Audit Readiness (FIAR) Plan Status Report included expanded information related to enterprise resource planning programs to better evaluate progress toward auditability, timely implementation of corrective measures, and to increase confidence in the management of these investments. Specifically, the May 2012 report included: system overview and relationship to audit readiness; impact on legacy systems in terms of legacy system sunseting and interfaces; program cost for releases, waves, and/or increments needed to support full auditability by FY 2017; projected dates for testing and related corrective actions for information technology general controls; and implementation and deployment milestones with identification of which functions needed to support audit readiness are included in the scope of each milestone.

Future FIAR Plan Status Reports will expand reporting to include information on IT application controls, by assessable unit, addressed by the system and projected dates for testing and related corrective actions for those controls. They will also include information on milestone delays and schedule slippages, including the impact of such delays on auditability dates, and discussion of mitigation measures and other actions taken by the Department to reduce the risks associated with any delays or slippages.

Attachment

Department of the Army Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE UNDER SECRETARY OF THE ARMY
WASHINGTON DC 20310-0101

SAUS

20 JUN 2012

MEMORANDUM FOR Principal Assistant Inspector General for Auditing, Department of Defense Inspector General

SUBJECT: Draft Report D2012-D000DE-0057.000 Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals

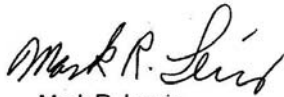
1. While the Army does not dispute the majority of the facts contained within the report and concurs with the recommendations, the Army believes the conclusions were based on a limited review and these Enterprise Resource Planning (ERP) systems represent only minor risk to Army financial auditability goals.
2. The Army has been working closely with the Office of Secretary of Defense (OSD) Deputy Chief Management Officer and the Under Secretary of Defense (Comptroller) to synchronize Army ERP development and fielding with the OSD Financial Improvement and Audit Readiness goals. All four of the Army ERPs are on-track to support the Department of Defense (DoD) FY2017 auditability target dates.
3. Implementation of commercial ERPs with minimal customization, by definition, is adopting best business practices and includes the reengineered business processes already incorporated into the commercial ERP software. Additionally, as the OSD Business Enterprise Architecture (BEA) has matured, it has defined the business processes used by OSD. The Army has worked closely with the OSD to further refine and integrated these processes into our ERP financial systems.
4. Both of the two Army ERP systems cited in the report were already developed and substantially deployed at the time the business process reengineering (BPR) law was enacted and the implementing instructions published. This report bases its conclusion on a single set of documents that were submitted to the OSD Investment Review Board (IRB) in 2011, a point in time when LMP Increment 1 had been fully deployed for a year and GFEBS was more than 50 percent deployed.
5. Tables 2 and 3 overstate the schedule and cost positions attributed to the Logistics Modernization Program (LMP). LMP Increment I achieved Full Deployment in December 2011 (contrary to the September 2016 date reflected in the report). Increment II of LMP

SUBJECT: Draft Report D2012-D000DE-0057.000 Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals

should be listed separately for both cost and schedule as are other ERP increments in the report.

6. Both GFEBS and LMP are mature programs, based on commercial best practices, BEA compliant and are incorporating the latest government financial practices. These program's costs and schedules are routinely reviewed and scrutinized at the Army and DoD levels which provides adequate program and acquisition oversight. While large scale software implementations tend to grow in time and costs, the conclusions within this report should also recognize they provide improved functionality and are financially compliant.

7. The OBT Point of Contact for this action is [REDACTED]



Mark R. Lewis
Army Deputy Chief Management Officer

Encl

CF:

Assistant Secretary of the Army (Financial Management & Comptroller)
Deputy Chief of Staff, G-4
Program Executive Office – Enterprise Information Systems

Department of the Navy Comments



DEPUTY UNDER SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

JUN 25 2012

From: Deputy Under Secretary of the Navy/Deputy Chief
Management Officer (DUSN/DCMO)
To: Department of Defense Office of Inspector General
Subj: DoDIG Draft Report on Enterprise Resource Planning (ERP)
Systems Schedule Delays and Reengineering Weaknesses
Increase Risks to DoD's Auditability Goals
Ref: Subject report 29 May 2012
Encl: (1) DUSN/DCMO memo dated 2 March 2012
(2) Navy ERP Program Manager Response Memorandum

1. The following comments are for Recommendation B.1.a:

a. The DON has incorporated the Business Process Reengineering (BPR) requirement into its Business Capability Lifecycle (BCL) process and DON continues to identify improvements through all the sustainment/modernization phases.

b. The DON continually reviews its own Investment Review Board (IRB) process for improvement. In Fiscal Year 2012, the DON IRB process was changed to allow more time for this office to review the BPR Assessment form and ensure that the "as is" and "to be" processes are documented.

c. Additionally, to ensure that there is enough time to review each package is in compliance with 10 U.S.C. 2222, a memo (enclosure (1)) was distributed on 2 March 2012 with the goal to reestablish the IRB package submission at least 65 calendar days prior to the IRB. The memo also included the condition that any late submissions will be provided to the Secretary of the Navy and will be subject to additional management internal controls. Program Managers with late packages will be required to document their mitigation strategies to prevent non-compliance in the subsequent years.

d. To further improve the evaluation process, the DON is moving from a project-centric process to a portfolio process. Potential investments will be evaluated by how well they support the missions, functional strategies and goals.

2. For Recommendation B.1.b, the BCL process utilized for Defense Business Systems requires that BPR must be completed before new projects are authorized. By not allowing a project to start if appropriate BPR was not completed, this process is already limiting the funding.

3. Enclosure (2) includes the Navy ERP Program Executive Office comments.

4. Page 11 of the Draft IG report cites that the Navy ERP PMO did not prepare process maps adequately.

a. Interim DoD guidance was provided on 12 Feb 2010 with the final DoD guidance dated 30 April 2011 got the BPR Assessment. The 30 April 2011 guidance provided examples of objective evidence of BPR assessment; the guidance also stated that the list was not limited to the 15 examples. Hence, process maps are just one type of evidence that can be utilized for BPR assessment and other types of templates can be used for analysis.

b. As stated in the report the initial deployment date was 2007. As such, the DoD guidance had not been promulgated when the "as-is" and "to-Be" gap analysis was initially conducted. SAP-standard templates were utilized for the gap analysis with the COTS To-Be processes and should be considered in lieu of process maps.



ERIC K. FANNING



DEPARTMENT OF THE NAVY
PROGRAM EXECUTIVE OFFICER
ENTERPRISE INFORMATION SYSTEMS (PEO-EIS)
701 SOUTH COURTHOUSE ROAD, BUILDING 12
ARLINGTON, VA 22204-2198

IN REPLY REFER TO
5300
PEO-EIS/00186
JUN 18 2012

FIRST ENDORSEMENT on Navy ERP ltr 5000 Ser 12/060 of 7 Jun 2012

From: Program Executive Officer, Program Executive Office
Enterprise Information Systems
To: Deputy Under Secretary of the Navy / Deputy Chief
Management Officer
Via: (1) Assistant Secretary of The Navy (Research, Development
and Acquisition)

Subj: NAVY ERP RESPONSE TO DRAFT DOD IG REPORT, "ENTERPRISE
RESOURCE PLANNING SYSTEMS SCHEDULE DELAYS AND
REENGINEERING WEAKNESSES INCREASE RISKS TO DOD'S
AUDITABILITY GOALS (PROJECT NO. D2012-D000DE-0057.000)"

1. Forwarded.



C. E. SMITH

Copy to:
Navy ERP Program



DEPARTMENT OF THE NAVY
NAVY ENTERPRISE RESOURCE PLANNING PROGRAM
2861 RIVA ROAD
ANNAPOLIS, MD 21401

IN REPLY REFER TO

5000
Ser Navy ERP 12/060
7 Jun 12

From: Deputy Program Manager, Navy Enterprise Resource Planning Program
To: Deputy Under Secretary of the Navy / Deputy Chief Management Officer
Via: (1) Program Executive Officer, Program Executive Office Enterprise Information Systems
(2) Assistant Secretary of The Navy (Research, Development and Acquisition)
Subj: NAVY ERP RESPONSE TO DRAFT DOD IG REPORT, "ENTERPRISE RESOURCE PLANNING SYSTEMS SCHEDULE DELAYS AND REENGINEERING WEAKNESSES INCREASE RISKS TO DOD'S AUDITABILITY GOALS (PROJECT NO. D2012-D000DE-0057.000)"
Ref: (a) Subject report 29 May 2012

1. Per the Recommendations Table on page ii of reference (a), DODIG requested comments from the Navy Chief Management Office on Recommendations B.1.a and B.1.b. Navy ERP reviewed reference (a) and has the following comments:

a. Navy ERP recommends changing the current number of system users from 40,000 to 66,000 within Table 1 on page 4.

b. Navy ERP recommends changing the planned number of system users from 66,000 to 72,000 within Table 1 on page 4.

c. Navy ERP recommends changing the planned number of legacy systems to be replaced from 96 to 84 within Table 1 on page 4.

d. Navy ERP recommends changing the Current Life-Cycle Cost Estimate from \$2,237.3M to \$2,137.2 within Table 2 on page 6, to reflect the program's current estimate. This results in a reduction of difference from \$604.4 to \$504.3.

e. The report states on page 11 that, "Navy ERP PMO stated that they did not develop 'As-Is' and 'To-Be' process maps even though they indicated on their BPR Assessment Form that these maps were developed."

(1) Navy ERP Response: Technically, the "As-Is" documentation is not in the form of process maps. SYSCOM "As-Is" documentation is completed via SAP-standard templates that are then used for gap analysis as compared to the COTS "To-Be" process. The Navy ERP solution is the target "To-Be" business processes for all SYSCOMs as they implement Navy ERP. Navy ERP

Subj: NAVY ERP RESPONSE TO DRAFT DOD IG REPORT, "ENTERPRISE
RESOURCE PLANNING SYSTEMS SCHEDULE DELAYS AND
REENGINEERING WEAKNESSES INCREASE RISKS TO DOD'S
AUDITABILITY GOALS (PROJECT NO. D2012-D000DE-0057.000)"

works closely with each SYSCOM to connect their "As-Is" processes
to the Navy ERP "To-Be".

(2) Navy ERP has fully defined and mapped the "To-Be"
business processes. Specifically, Navy ERP has mapped all of the
business processes from Level 1 down to Level 6 (the actual
transactional step) and recorded all of them in the System
Architect process modeling tool.

2. My point of contact for this review is [REDACTED],
[REDACTED] or
[REDACTED].

V. E. Carpenter
V. E. CARPENTER

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

JUN 25 2012

OFFICE OF THE UNDER SECRETARY

MEMORANDUM FOR DoD IG

SUBJECT: ERP Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's
Auditability Goals (Project No. D2012-D000DE-0057.000)

1. The Air Force concurs with the subject draft report as written with a security classification of UNCLAS. We offer a technical comment regarding the DEAMS ERP: "as a matter of clarification, the DEAMS program has received AF DCMO and OSD DCMO approval of the BPR package, based on the previous certification in FY12."

2. If you have any questions, please contact [REDACTED]

A handwritten signature in cursive script, appearing to read "D. Tillotson", is positioned above the typed name.

DAVID TILLOTSON III, SES
Director of Business Transformation and
Deputy Chief Management Officer



Inspector General Department of Defense

